84-830

No. 84-____

Supreme Court, U.S.
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IN THE

Supreme Court of the United States

OCTOBER TERM, 1984

ETHICON, INC.,

Petitioner,

—v.—

HANDGARDS, INC.,

Respondent.

PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE NINTH CIRCUIT

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QUESTIONS PRESENTED

I. Under the First Amendment and the *Noerr-Pennington* doctrine, can a litigant forfeit immunity from antitrust liability by prosecuting a single lawsuit where the resolution of that suit depends on credibility findings and contestable legal conclusions?

II. Are trial and appellate courts required to make an independent evaluation of the sufficiency of the evidence relied upon to override a substantive First Amendment right, here the freedom to petition courts?

III. Can a finding of "bad faith" prosecution of a lawsuit constitute a *per se* illegal attempt to monopolize under section 2 of the Sherman Act?

IV. Does the newly-created Court of Appeals for the Federal Circuit have exclusive jurisdiction of an appeal in an action which arose in part under the patent laws and whose antitrust aspects are based solely upon enforcement of patent rights?

Statement Required by Rule 28.1

Petitioner Ethicon, Inc. is a wholly owned subsidiary of Johnson & Johnson. In addition to wholly-owned subsidiaries, the following are all of the affiliates of Johnson & Johnson:

ens Biologicals, Inc.
Enzo Biochem, Inc.
Immunomedics, Inc.

TABLE OF CONTENTS

PAGE

OPINIONS BELOW 1

JURISDICTION 2

CONSTITUTIONAL PROVISIONS INVOLVED 2

STATUTORY PROVISIONS INVOLVED 3

STATEMENT OF THE CASE 3

REASONS FOR GRANTING THE WRIT 6

I. UNDER THE FIRST AMENDMENT AND THE *NOERR-PENNINGTON* DOCTRINE, A LITIGANT CANNOT FORFEIT IMMMUNITY FROM ANTITRUST LIABILITY BY PROSECUTING A SINGLE LAWSUIT WHERE THE RESOLUTION OF THAT SUIT DEPENDS ON CREDIBILITY FINDINGS AND CONTESTABLE LEGAL CONCLUSIONS 8

A. The Ninth Circuit Ignored This Court's Controlling Precedents Limiting the Scope of the "Sham Litigation" Exception 8

B. Ethicon's Lawsuit Was Not a "Sham" 13

C. This Court Should Resolve the Conflict and Confusion Among the Lower Federal Courts on the Scope of the "Sham" Exception 15

II. THE ABDICATION BY BOTH THE TRIAL COURT AND THE APPEALS COURT OF THEIR DUTY TO MAKE AN INDEPENDENT

PAGE

EVALUATION OF THE EVIDENCE SUPPOSEDLY PROVING THAT ETHICON ENGAGED IN SHAM LITIGATION VIOLATED ETHICON'S FIRST AMENDMENT RIGHTS 21

III. THE EFFECT OF *PER SE* ILLEGALITY GIVEN TO THE FINDING OF BAD FAITH PROSECUTION UNDERCUTS THE RIGHT TO PETITION AND CONFLICTS WITH THE RULINGS OF ALL OTHER CIRCUITS ON ATTEMPTS TO MONOPOLIZE 25

IV. THIS COURT SHOULD RESOLVE THE JURISDICTIONAL CONFLICT BETWEEN THE COURT OF APPEALS FOR THE FEDERAL CIRCUIT AND THE REGIONAL COURTS OF APPEALS IN CASES ARISING IN PART UNDER THE PATENT LAWS AND IN CASES IN WHICH PATENT AND ANTITRUST ISSUES ARE INEXTRICABLY INTERTWINED..... 27

CONCLUSION..... 29

TABLE OF AUTHORITIES

Cases PAGE

Alexander v. National Farmers Organization, 687 F.2d 1173 (8th Cir. 1982), *cert. denied*, ____ U.S. ____, 103 S. Ct. 2018 (1983) 18

Associated Radio Service Co. v. Page Airways, Inc., 624 F.2d 1342 (5th Cir. 1980), *cert. denied*, 450 U.S. 1030 (1981) 19

Atari, Inc. v. JS&A Group, Inc., No. 84-472 (Fed. Cir., Nov. 8, 1984) 28

Baumgartner v. United States, 322 U.S. 665 (1944) 22

Bethlehem Plaza v. Campbell, 403 F. Supp. 966 (E.D. Pa. 1975) 20

Bill Johnson's Restaurants, Inc. v. N.L.R.B., 103 S. Ct. 2161 (1983) 9-10, 14-15, 22, 23, 25

Blanton v. Mobil Oil Corp., 721 F.2d 1207 (9th Cir. 1983), *petition for cert. filed*, 52 U.S.L.W. 3875 (U.S. May 18, 1984) (No. 83-1896) 26-27

Bose Corp. v. Consumers Union, Inc., ____ U.S. ____, 104 S. Ct. 1949 (1984) 21-22

Burlington Industries v. Milliken & Co., 690 F.2d 380 (4th Cir. 1982) 28

California Motor Transport Co. v. Trucking Unlimited, 404 U.S. 508 (1972) 8-10, 16

Chemical Engineering Corp. v. Marlo, 222 U.S.P.Q. 738 (Fed. Cir., July 16, 1984) 28

Cleveland v. Cleveland Electric Illuminating Co., 734 F.2d 1157 (6th Cir.), *cert. denied*, 53 U.S.L.W. 3269 (Oct. 9, 1984) 15, 18

Coastal States Marketing, Inc. v. Hunt, 694 F.2d 1358 (5th Cir. 1983) 15, 19

PAGE

Codex Corp. v. Racal-Milgo, Inc., 1984-1 Trade Cas. (CCH) ¶ 65,853 (D. Mass. 1984) 19

Dole Valve Co. v. Perfection Bar Equipment Co., 458 F.2d 1200 (7th Cir. 1972) 23

Eastern R.R. Presidents Conference v. Noerr Motor Freight, Inc., 365 U.S. 127 (1961) 8

Eltra Corp. v. Basic, Inc., 599 F.2d 745 (6th Cir.), *cert. denied*, 444 U.S. 942 (1979) 23

Ethicon, Inc. v. Handgards, Inc., 432 F.2d 438 (9th Cir. 1970), *cert. denied*, 402 U.S. 929 (1971) 3

Federal Prescription Service v. American Pharmaceutical Ass'n, 663 F.2d 253 (D.C. Cir. 1981), *cert. denied*, 455 U.S. 928 (1983) 18

First National Bank v. Marquette National Bank, 482 F. Supp. 514 (D. Minn. 1979), *aff'd*, 636 F.2d 195 (8th Cir. 1980), *cert. denied*, 450 U.S. 1042 (1981) 16

Gainesville v. Florida Power & Light Co., 488 F. Supp. 1258 (S.D. Fla. 1980) 16, 20

Grip-pak, Inc. v. Illinois Tool Works, Inc., 694 F.2d 466 (7th Cir. 1982), *cert. denied*, 103 S. Ct. 2430 (1983) .. 17

Handgards, Inc. v. Johnson & Johnson, 413 F. Supp. 921 (N.D. Cal. 1975) 2, 4

Handgards, Inc. v. Johnson & Johnson, 1976-2 Trade Cas. (CCH) ¶ 61,138 (N.D. Cal. 1976) 2

Handgards, Inc. v. Ethicon, Inc., 601 F.2d 986 (9th Cir. 1979), *cert. denied*, 444 U.S. 1025 (1980) ..... *passim*

Handgards, Inc. v. Ethicon, Inc., 552 F. Supp. 820 (N.D. Cal. 1982), *aff'd*, Nos. 83-1575, 83-1646 (9th Cir. August 2, 1984) 2

Handgards, Inc. v. Ethicon, Inc., Nos. 83-1575, 83-1646 (9th Cir., Aug. 2, 1984, as amended September 26, 1984) ..... *passim*

PAGE

Harries v. Air King Products Co., 183 F.2d 158 (2d Cir. 1949) 11

Hernon v. Revere Copper & Brass, Inc., 494 F.2d 705 (8th Cir.), *cert. denied*, 419 U.S. 867 (1974) 23

Hospital Building Co. v. Trustees of Rex Hospital, 691 F.2d 678 (4th Cir. 1982), *cert. denied*, ____ U.S. ____, 104 S. Ct. 231 (1983) 18

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Jack Faucett Associates v. American Tel. & Tel. Co., 1984-2 Trade Cas. (CCH) ¶ 66,186 (D.C. Cir. 1984) 19

Lessig v. Tidewater Oil Co., 327 F.2d 459 (9th Cir.), *cert. denied*, 337 U.S. 993 (1964) 26

Litton Systems Inc. v. American Tel. & Tel. Co., 700 F.2d 785 (2d Cir. 1983), *cert. denied*, ____ U.S. ____, 104 S.Ct. 984 (1984) 18-19

Marsh v. Austin-Fort Worth Coca Cola Bottling Co., 744 F.2d 1047 (5th Cir. 1984) 29

Marx & Co., Inc. v. Diners Club, Inc., 550 F.2d 505 (2d Cir. 1977), *cert. denied*, 434 U.S. 861 (1978) 24

MCI Communications Corp. v. American Tel. & Tel. Co., 708 F.2d 1081, *modified*, 1983-2 Trade Cas. (CCH) ¶ 65,520 (7th Cir.), *cert. denied*, ____ U.S. ____, 104 S.Ct. 234 (1983) 16, 17

Miracle Mile Associates v. Rochester, 617 F.2d 18 (2d Cir. 1980) 18

Mountain Grove Cemetery v. Norwalk Vault Co., 428 F. Supp. 951 (D. Conn. 1977) 18

Nemeroff v. Abelson, 620 F.2d 339 (2d Cir. 1980) 15

Oetiker v. Jurid Werke GmbH, 671 F.2d 596, 601 (D.C. Cir. 1982) 17

PAGE

Omni Resource Development Corp. v. Conoco, Inc., 739 F.2d 1412 (9th Cir. 1984) 17

Otter Tail Power Co. v. United States, 410 U.S. 366 (1973) 9

Pacific Stationery & Printing Co. v. Northwest Wholesale Stationery, 715 F.2d 1393 (9th Cir. 1983), *cert. granted*, 53 U.S.L.W. 3235 (U.S., Oct. 1, 1984) (No. 83-1368) 27

Rohm & Haas Co. v. Dawson Chemical Co., Inc., 557 F. Supp. 739 (S.D. Tex. 1983), *rev'd on other grounds sub nom. Rohm & Haas Co. v. Crystal Chemical Co.*, 722 F.2d 1556 (5th Cir. 1983) 19

Sage International, Ltd. v. Cadillac Gage Co., 507 F. Supp. 939 (E.D. Mich. 1981) 16

Transitron Electric Corp. v. Hughes Aircraft Co., 487 F. Supp. 885 (D. Mass. 1980), *aff'd*, 649 F.2d 871 (1st Cir. 1981) 20

United Mine Workers v. Pennington, 381 U.S. 657 (1965) 8

United States v. American Telephone & Telegraph Co., 524 F. Supp. 1336 (D.D.C. 1981) 19

Vendo Co. v. Lektro-Vend Corp., 433 U.S. 633 (1977) 9

Virginia Academy of Clinical Psychologists v. Blue Shield of Virginia, 624 F.2d 476 (4th Cir. 1980) 18

Virtue v. Creamery Package Mfg. Co., 227 U.S. 8 (1913) 12

Walker Process Equipment, Inc. v. Food Machinery & Chemical Corp., 382 U.S. 172 (1965) 4, 12

Watts v. Indiana, 338 U.S. 49 (1949) 22

Western Electric Co. v. Stewart-Warner Corp., 631 F.2d 333 (4th Cir. 1980), *cert. denied*, 450 U.S. 971 (1981) 23

PAGE

William Inglis & Sons Baking Co. v. Continental Baking Co., 668 F.2d 1014 (9th Cir. 1981), *cert. denied*, 459 U.S. 825 (1982) 26

Zenith Radio Corp. v. Matsushita Electric Industrial Co., 513 F. Supp. 1100, 1157 (E.D. Pa. 1981), *aff'd in part, rev'd and remanded in part*, 723 F.2d 238 (3d Cir. 1983) 20

Statutes, Rules and Regulations

United States Constitution, Article I, Section 8, clause 8 2

United States Constitution, Amendment I 2

15 U.S.C. § 2 3

15 U.S.C. § 15 3

28 U.S.C. § 1254(1) 2

35 U.S.C. § 102(b) 3, 6, 24

35 U.S.C. § 102(g) 3, 6

35 U.S.C. § 271 12

35 U.S.C. § 282 11

35 U.S.C. § 285 3

Other Authorities

J. Boswell, *Life of Samuel Johnson* (Hill ed. 1887) 10

Note, "Limiting the Antitrust Immunity for Concrete Attempts to Influence Courts and Adjudicatory Agencies: Analogies to Malicious Prosecution and Abuse of Process," 86 Harv. L. Rev. 645 (1973) 9

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ETHICON, INC.,

Petitioner,

—v.—

HANDGARDS, INC.,

Respondent.

PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE NINTH CIRCUIT

Ethicon, Inc. ("Ethicon") requests that a writ of certiorari issue to review the final judgment and opinion of the United States Court of Appeals for the Ninth Circuit entered in this proceeding on August 2, 1984.

OPINIONS BELOW

The opinion of the Court of Appeals, originally issued on August 2, 1984 and revised *sua sponte* by that court on September 26, 1984, is not as yet officially reported. It is the second opinion of the Ninth Circuit in this action and is referred to herein as "*Handgards II*." The original *Handgards II* opinion and the amendment are annexed hereto as Appendices A and B, respectively. An earlier decision ("*Handgards*

I") reversed a judgment for plaintiff and remanded for a new trial. *Handgards, Inc. v. Ethicon, Inc.*, 601 F.2d 986 (9th Cir. 1979), *cert. denied*, 444 U.S. 1025 (1980)[1] (Appendix C). The District Court opinions are: *Handgards, Inc. v. Ethicon, Inc.*, 552 F. Supp. 820 (N.D. Cal. 1982) (Appendix D) (denying in relevant part Ethicon's post-verdict motions following the second trial); *Handgards, Inc. v. Johnson & Johnson*, 1976-2 Trade Cases (CCH) ¶ 61,138 (N.D. Cal. 1976) (Appendix E) (denying in relevant part Ethicon's post-verdict motions following the first trial); and *Handgards, Inc. v. Johnson & Johnson*, 413 F. Supp. 921 (N.D. Cal. 1975) (Appendix F) (granting in part and denying in part Ethicon's motion for summary judgment).

JURISDICTION

The judgment of the Court of Appeals for the Ninth Circuit was entered on August 2, 1984. This petition for a writ of certiorari was timely filed on November 20, 1984 pursuant to an extension granted by Mr. Justice Rehnquist on October 23, 1984. This Court has jurisdiction under 28 U.S.C. § 1254(1).

CONSTITUTIONAL PROVISIONS INVOLVED

United States Constitution, Article I, Section 8, clause 8:

> To promote the Progress of Science and the useful Arts, [Congress shall have Power to secure] for limited times to Authors and Inventors the exclusive right to their respective writings and discoveries. . . .

United States Constitution, Amendment I:

> Congress shall make no law . . . abridging the . . . right of the people . . . to petition the Government for a redress of grievances.

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1 Mr. Justice White would have granted the petition and cross-petition for a writ of *certiorari*. 444 U.S. at 1025.

STATUTORY PROVISIONS INVOLVED

15 U.S.C. §§ 2, 15; 35 U.S.C. §§ 102(b), 102(g). These provisions are set forth in the Statutory Appendix.

STATEMENT OF THE CASE

The Prior Patent Enforcement Action—A Case That "Could Have Been Decided Either Way"

This case is the sequel to a patent infringement suit brought by petitioner Ethicon against Handgards for infringment of its patent on a process for producing a heat-sealed plastic glove (the "Gerard patent"). Ethicon also owned and sued on a patent on the glove itself (the "Orsini patent"), but later withdrew the Orsini patent claims from the suit.

The non-jury trial of the Gerard patent infringement suit took place in February, 1968. Handgards admitted infringement if the patent was valid, but challenged validity on the sole ground that a third party, one Shabram, had made a "public use" of the Gerard process more than one year before Gerard filed his patent application. 35 U.S.C. § 102(b). This defense depended on the credibility of Mr. Shabram, a former principal of Handgards, whose assertion of a prior public use at trial contradicted his own earlier sworn statements and was impeached by other documentary evidence. The trial court, however, credited his testimony, and found the Gerard patent to be invalid. The court did not adopt Handgards' proposed finding of fact that Ethicon had been guilty of bad faith litigation, and Handgards thus never moved for an award of attorney's fees available under 35 U.S.C. § 285 as a sanction against conducting patent litigation in bad faith.

On appeal, the Ninth Circuit affirmed the judgment of invalidity. It held that, although the case was "one that could have been decided either way," the trial court's credibility-based ruling was not clearly erroneous. *Ethicon, Inc.* v. *Handgards, Inc.*, 432 F.2d 438, 438 (9th Cir. 1970), *cert. denied*, 402 U.S. 929 (1971).

The Proceedings In Handgards I

Handgards filed this antitrust action shortly after the district court adjudged the Gerard patent invalid in 1968. Its principal claim was that the Orsini patent—the one withdrawn from the patent infringement suit by Ethicon—had been fraudulently procured and its enforcement constituted attempted monopolization. *See Walker Process Equipment Inc.* v. *Food Machinery & Chemical Corp.*, 382 U.S. 172 (1965). Handgards eventually abandoned this theory as meritless. Yet it was permitted to go to trial on the novel theory that, although neither the Gerard nor the Orsini patent had been fraudulently procured, Ethicon had attempted to enforce them "in bad faith," *i.e.*, with "knowledge" of the invalidity of the patents.[2] Handgards also charged that the lawsuit was part of an "overall scheme" to monopolize the market of heat-sealed disposable plastic gloves. *See Handgards, Inc.* v. *Johnson & Johnson*, 413 F. Supp. 921, 923-25 (N.D. Cal. 1975).

The 1976 trial resulted in jury findings that (i) the Orsini patent was valid and infringed by Handgards; (ii) the infringement claims with respect to the Gerard patent had been prosecuted by Ethicon in bad faith in violation of section 2 of the Sherman Act; and (iii) the lawsuit was part of an overall scheme to monopolize the relevant market.

In *Handgards, Inc.* v. *Ethicon, Inc.*, 601 F.2d 986 (9th Cir. 1979) ("*Handgards I*"), the Ninth Circuit reversed and remanded for a new trial. It held, first, that Ethicon engaged in no "overall scheme to monopolize" in that there was no evidence of anticompetitive acts external to the lawsuit (App. C at 51a). Second, the court decided that an infringement action conducted "in bad faith" may, without more, constitute an attempt to monopolize in violation of section 2, but reversed because of its ruling that the bad faith theory should have been submitted to the jury on a "clear and convincing" standard of proof (*Id.* at 54a). Handgards did not appeal the judgment decreeing that the Orsini patent was valid and infringed.

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2 The district court thus required that Handgards amend its complaint to seek a declaration of Orsini's invalidity, which had never been adjudicated.

The Proceedings In Handgards II

The remand resulted in a general verdict for Handgards, and in its second decision below, the Ninth Circuit affirmed. *Handgards, Inc.* v. *Ethicon, Inc.*, ____ F.2d ____ (9th Cir., Aug. 2, 1984) ("*Handgards II*"). The damage award was based primarily on Handgards' "lost profits." After trebling, and with fees and interest, it now totals $18 million.

The Court had asked for special briefing on the question whether it or the Court of Appeals for the Federal Circuit had jurisdiction of the appeal. The *Handgards II* decision upheld jurisdiction of the regional courts of appeal in a case such as this one combining patent and antitrust claims (App. A at 4a-8a), and thus proceeded to the merits.

In its first antitrust opinion, the Court of Appeals had considered but did not reach the question whether its principal holding on bad faith patent enforcement was consistent with this Court's *Noerr-Pennington* line of decisions establishing an immunity from antitrust liability for petitioning activity. (App. C at 53a, n. 16; id. at 58a-60a (Kennedy, J. concurring)). In *Handgards II,* however, the court squarely held that bad faith litigation "easily affords the equivalent of the 'sham' exception" to the *Noerr* doctrine, and thereby affirmed the district court's refusal to instruct the jury on Ethicon's constitutional right to petition. (App. A at 21a).

The Court of Appeals also considerably amplified its prior ruling that bringing a "bad faith" lawsuit could amount to an antitrust violation. In its *sua sponte* amendment to its opinion issued on September 26, 1984, the court for the first time characterized the bad faith in prosecuting a lawsuit as being "extrinsic" to the lawsuit itself, and held that "bad faith" in prosecuting the suit could be proved by jury speculation that the prior plaintiff "knew" that potential, unlitigated affirmative defenses, if tried, would have been established (App. B at 34a-35a).

Handgards II also held that neither the trial nor appeals court had a duty to independently review the record to determine whether there was sufficient evidence to deprive Ethicon of its constitutional right to a day in court. (App. A at 9a, 10a, 32a). It used the "substantial evidence" rubric to affirm on the

rationale that the jury "could" have found that Ethicon "knew" the Gerard patent was invalid on three separate grounds: the credibility issue of Shabram's prior public use actually tried in 1968, and two other affirmative defenses that Handgards had abandoned in the patent trial (App. A at 12a-17a).

The first of these unlitigated affirmative defenses was priority of invention of Shabram over Gerard. 35 U.S.C. § 102(g). Resolution of this defense, however, turned on the chronology of Shabram's invention and thus would have presented the identical credibility issues as the one actually litigated, Shabram's prior public use.

The other unlitigated defense was whether Gerard had placed his patented process "on sale" more than one year prior to filing his patent application within the meaning of 35 U.S.C. § 102(b). Resolution of this defense would have turned on the legal conclusions to be derived from the undisputed facts that more than one year prior to filing Gerard exhibited samples of his gloves to a potential marketer and took an order for gloves to be supplied when, as and if he developed a commercial process.

REASONS FOR GRANTING THE WRIT

The decision below by the Ninth Circuit that a single patent infringement suit brought by a patentee with "knowledge" of evidence of the invalidity of its patent is a sham lawsuit under the *Noerr-Pennington* doctrine denies a patentee its First Amendment right to petition the courts. Moreover, the threat to patentees that unwarranted section 2 liability will ensue from the prosecution of a single lawsuit based on a validly-issued patent will seriously devalue the patent rights afforded by Congress to inventors under the patent laws. Such devaluation will discourage investment in research and development and chill disclosure of inventions through the patent system at a time when invention is crucial to the improvement of the

competitive position of the United States in a technology-dependent world.

The significance of the unique rule created by the Ninth Circuit goes far beyond patent litigation. As *Handgards II* makes clear, "bad faith" can be established simply by relitigating the merits of a prior action. The Ninth Circuit's bad faith rule permits an antitrust jury to infer, based on any evidence in the record contrary to the prior plaintiff's claim, that the litigant "knew" it would lose its case. This formless bad faith standard invites endless relitigation of the merits of prior actions. It conflicts with the decisions of this Court and several other Circuits, which have properly construed "sham litigation" as a narrow exception to the fundamental right to petition.

The courts below refused to independently review the record to determine whether there was sufficient evidence for a jury to penalize Ethicon's constitutional right to litigate. Since the *Noerr-Pennington* immunity derives from the First Amendment right to petition, this Court should affirm that the well-established rule of independent judicial review of the record in Constitutional cases applies where antitrust liability has been imposed to punish the act of petitioning the courts.

Finally, the Ninth Circuit, citing its unique *per se* approach for section 2 attempt cases, held that bad faith prosecution in and of itself proved a specific intent to monopolize and that proof of actual exclusion of competition resulting from the challenged conduct was not needed. The combined effect of its holdings that bad faith prosecution of a single suit satisfies the sham exception, that such bad faith may be inferred merely from the evidence in the prior suit, and that this bad faith finding results in a virtual *per se* violation of section 2 of the Sherman Act eviscerates the constitutional right to petition.

In sum, intervention by this Court is sorely needed to resolve the conflict and confusion among the Circuits with respect to the scope of the "sham exception," to restore to patentees the fundamental right of access to the courts that has been so lightly discarded in this case, and to maintain the incentives in the U.S. patent system.

I. UNDER THE FIRST AMENDMENT AND THE *NOERR-PENNINGTON* DOCTRINE, A LITIGANT CANNOT FORFEIT IMMMUNITY FROM ANTITRUST LIABILITY BY PROSECUTING A SINGLE LAWSUIT WHERE THE RESOLUTION OF THAT SUIT DEPENDS ON CREDIBILITY FINDINGS AND CONTESTABLE LEGAL CONCLUSIONS

A. The Ninth Circuit Ignored This Court's Controlling Precedents Limiting the Scope of the "Sham Litigation" Exception

Access to the courts of the United States is one of the basic freedoms guaranteed by the Bill of Rights. Given the importance of this freedom, this Court has held that using the courts to resolve disputes with a competitor is immune from liability under the antitrust laws (the "*Noerr-Pennington* doctrine"). *California Motor Transport Co.* v. *Trucking Unlimited*, 404 U.S. 508 (1972). The fact that the sole purpose in resorting to the courts is to eliminate competitors will not generally give rise to a violation of the antitrust laws. *Id.* Only when a litigant is using the lawsuit as a "mere sham" to interfere directly and unlawfully with a competitor's business has this Court held that the application of the Sherman Act would be justified. *Id.; see also, United Mine Workers of America* v. *Pennington*, 381 U.S. 657 (1965); *Eastern R.R. Presidents Conference* v. *Noerr Motor Freight*, 365 U.S. 127 (1961).

The decisions of this Court make it clear that the "sham exception" to the immunity of lawsuits from the antitrust laws is an extremely narrow one. *California Motor Transport, supra*, the leading decision, establishes that invoking the "sham exception" is appropriate only under circumstances that are not remotely present in this case.

The first is where the challenged lawsuit is coupled with other anticompetitive conduct designed to interfere directly and unlawfully with the business of a competitor. In such a case, litigation is combined with extrinsic acts in an overall scheme to violate the antitrust laws. *See* 404 U.S. at 513, 515.

If, however, the litigant's only challenged activity is seeking a judicial decree, the sham exception requires a showing of gross misconduct that caused or is likely to cause the grant of undeserved relief. For instance, in *California Motor Transport*, this Court stated that *Noerr-Pennington* immunity would not extend to "illegal and reprehensible practice[s] which may corrupt the administrative or judicial processes," such as perjury, fraud, and conspiracy with or bribery of government decisionmakers. 404 U.S. at 513.[3] In commenting on *California Motor Transport*, a Harvard Law Review Note[4] observed:

> the [antitrust] plaintiff must show that the defendant instituted the litigation with the purpose of achieving a 'collateral' objective, and that he committed a specific act—*other than those acts incidental to the normal use of the court or agency*—directed at attaining that objective.

Finally, this Court's recent decision in *Bill Johnson's Restaurants* v. *NLRB*, ____ U.S.____, 103 S. Ct. 2161 (1983) adds a significant gloss on the right to petition courts. Although decided under the labor laws, the case affords important lessons for construing the *Noerr-Pennington* antitrust doctrine and exposes the threat created by the Ninth Circuit's "bad faith" test. Thus, among the crucial questions presented by this case is whether the reasoning and holding of *Bill Johnson's Restaurants* will be part of *Noerr-Pennington* antitrust jurisprudence.

In *Bill Johnson's Restaurants*, the National Labor Relations Board sought to enjoin as an unfair labor practice a lawsuit filed by an employer against employees. Recognizing the need to guarantee a litigant's First Amendment right of petition as

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3 *See also Otter Tail Power Co.* v. *U.S.*, 410 U.S. 366, 380 (1973); *Vendo Co.* v. *Lektro-Vend Corp.*, 433 U.S. 633 (1977).

4 Note, "Limiting the Antitrust Immunity for Concrete Attempt To Influence Courts and Adjudicatory Agencies: Analogies to Malicious Prosecution and Abuse of Process," 86 Harv. L. Rev. 645, 732 (1973) (emphasis supplied).

was done in the antitrust context under *Noerr-Pennington* doctrine, the Court unanimously held that the filing and prosecution of a lawsuit having a "*reasonable basis*" could not be enjoined by the NLRB even if the suit had an unlawful retaliatory purpose. The Court proceeded to limit the permissible scope of the inquiry into the "reasonable basis" for prosecuting a lawsuit:

> Although the Board's reasonable basis inquiry need not be limited to the bare pleadings, if there is a genuine issue of material fact that turns on the *credibility of witnesses* or on the *proper inferences to be drawn from undisputed facts*, it cannot, in our view, be concluded that the suit should be enjoined. *Id.* at 2171.

This Court has never held that a single suit may be determined to be a sham merely by relitigating the merits to establish whether the plaintiff thought he would lose. Asserting in a single lawsuit claims as to which a plaintiff knows there is some contrary evidence or legal authority and which, in the course of litigation, may be unsuccessful hardly rises to the level of a "sham" under the standards set forth by this Court in *California Motor Transport* and other *Noerr-Pennington* cases. Yet, *Handgards II* allows a subsequent antitrust jury to infer from that same contrary evidence or legal authority that the litigant "knew" he would lose. Conspicuously absent from the Ninth Circuit's analysis is any consideration of whether the litigant had a *reasonable basis* for making its claims, notwithstanding the possibility that such claims might ultimately be rejected.

The Ninth Circuit's approach entirely misses the point of the sham exception. It is a gross oversimplification of the litigation process to think that a party "knows" from the outset whether its claim is valid or invalid.[5] This is particularly so in the area

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5 Relevant are the words of Samuel Johnson, regarding what a lawyer "knows" about a case. In response to Boswell's question: "But what do you think of supporting a cause which you know to be bad?" Dr. Johnson replied: "Sir, you do not know it to be good or bad till the Judge determines it." 2 *J. Boswell's Life of Samuel Johnson* 47 (Hill ed. 1887).

of intellectual property rights, where the validity issue presents mixed questions of fact and law, and typically is one of great complexity. As Judge Learned Hand observed, the issue of patent validity is often "as fugitive, impalpable, wayward, and vague a phantom as exists in the whole paraphernalia of legal concepts . . . . If there be an issue more troublesome, or more apt for litigation than this, we are not aware of it." *Harries v. Air King Products Co.*, 183 F.2d 158, 162 (2d Cir. 1949).

A good example of the unpredictability of patent litigation may be found in this very case. Ethicon's counsel elected to drop the infringement claims against Handgards based on the Orsini patent in view of his belief that Gerard was the stronger of the two patents. As it happened, Gerard was adjudged invalid, but later Orsini was held to be valid and infringed by Handgards. Ethicon's "bad faith" thus boils down to a trial lawyer's judgment that one patent, and not the other, was Ethicon's best chance to win the lawsuit. But a prediction which ultimately turned out to be incorrect as to which of two patents would best present a successful infringement claim against a competitor cannot be a "sham" under any rational construction of the term. That it resulted in treble damage liability as an "attempt to monopolize" reveals the unacceptability of the Ninth Circuit's bad faith rule.

A participant in complex litigation will always be aware of the possibility that its claim could be found invalid. Such "knowledge," however, does not mean there is no reasonable basis for a lawsuit, and should not defeat a complainant's constitutional right to assert claims against its competitors. Open and shut cases, after all, rarely reach the stage of a trial. But hotly contested issues of fact and law also require adjudication, and suits involving such issues should not be deterred by the prospect of treble damages. Indeed, it is precisely this type of case that requires the constitutional protection discarded by the Ninth Circuit.

While all litigants are entitled to protection from the second-guessing indulged in by juries under the "bad faith" rubric fashioned by the Ninth Circuit, patent owners are, if anything, deserving of the highest level of solicitude. A lawfully-issued

patent is presumptively valid, 35 U.S.C. § 282, and is itself a grant of a right to sue. *Id.* § 271(d)(3). "Patents would be of little value if infringers of them could not be notified of the consequences of infringement, or proceeded against in the courts." *Virtue* v. *Creamery Package Mfg. Co.*, 227 U.S. 8, 37-38 (1913). As Justice Harlan cautioned, concurring in the *Walker Process* decision:

> To hold, as we do not, that private antitrust suits might also reach monopolies practiced under patents that for one reason or another may turn out to be voidable under one or more of the numerous technicalities attending the issuance of a patent, might well chill the disclosure of inventions through the obtaining of a patent because of fear of the vexations or punitive consequences of treble damage suits. Hence, this private antitrust remedy should not be deemed available to reach § 2 monopolies carried on under a nonfraudulently procured patent.

382 U.S. at 180 (Harlan, J., concurring).

The significance of *Handgards*, then, is that no business can ever sue a competitor, at least on a patent, without the threat that a subsequent antitrust jury will impose treble damage liability wherever there is *any* evidence from which a jury could subsequently speculate as to bad faith. This dangerous and chilling precedent will apply even to cases where, as here, the issue of validity "could have been decided either way," and where, as here, the judge who tried the patent suit of several weeks' duration refused to adopt proposed findings that the patentee had acted in bad faith. The decision is even more pernicious because it permits the subsequent antitrust jury to make such inferences based solely on hypothetical patent defenses that the alleged infringer's patent counsel had judicially abandoned in prior proceedings.

This serious erosion of the constitutional right to petition flows from the Ninth Circuit's evasion of the careful limits imposed by this Court on the sham exception. The jury was not even apprised that Ethicon's constitutional rights were at stake, and the Court of Appeals approved the trial court's

refusal to give any instruction mentioning the *Noerr-Pennington* doctrine, the First Amendment, or the right to petition. (App. A at 21a). This is the only case of which we are aware that has found a single meritless prosecution of a non-fraudulently-procured patent, and not as an integral part of a wider scheme to monopolize, to amount to an illegal attempt to monopolize. It fails to satisfy all of the tests previously set forth by this Court for sham litigation.

B. Ethicon's Suit Was Not A "Sham"

The suit brought by Ethicon against Handgards and its predecessors does not begin to meet the established standards for the "sham exception."

First, it was expressly held that the suit brought by Ethicon was *not* an integral part of a larger scheme external to the litigation unlawfully to interfere with Handgard's business. In *Handgards I,* the Court specifically held that "Handgards has neither pleaded nor proved that Ethicon engaged in a pattern of baseless repetitive litigation designed to prevent meaningful access to an adjudicatory tribunal," and that there was no evidence of an "overall scheme" to monopolize the market for heat-sealed disposable plastic gloves. *Handgards I,* App. C at 51a. The afterthought in the amendment by the Ninth Circuit to its *Handgards II* opinion that prosecuting a patent suit in bad faith is "extrinsic" to the lawsuit (App. B at 35a) does not make it so.

Second, Ethicon's conduct concededly did not meet the test of gross misconduct in the course of the litigation that is instrumental in obtaining undeserved relief. Ethicon obtained no relief, and in any event, none of the acts alleged against Ethicon comes close to the type of procedural abuse amounting to a "sham". Neither of the patents was fraudulently procured. And, while Handgards claims that Ethicon "lied" during the course of the lawsuit, the alleged "lies" were answers to contention interrogatories in which Ethicon stated the earliest date it hoped to prove for Gerard's reduction to practice—a complex legal judgment on a highly arcane issue of patent law. The reduction to practice issue was never litigated,

however, and Handgards conceded both during the patent and antitrust actions that Ethicon's interrogatory answers neither misled nor prejudiced it. In short, Ethicon was portrayed as a "liar" for asserting legal contentions on immaterial matters. This charge, relied on heavily in *Handgards II* as evidence of "bad faith," (App. A at 12a-13a, 14a) is one that could be levelled at virtually any litigant and clearly exposes the wrongheadedness of the Ninth Circuit's approach.

Third, if the *Bill Johnson's Restaurants* "reasonable basis" test is to be assimilated to the *Noerr-Pennington* doctrine, Ethicon's suit against Handgards cannot be characterized as lacking a reasonable basis because the only grounds of invalidity at issue turned either on credibility findings or the resolution of contestable legal conclusions from fully disclosed facts. Here, "bad faith" was premised on three theories: (1) the alleged prior public use by Shabram; (2) Shabram's alleged priority of invention; and (3) Gerard's alleged statutory "sale" of his patented process. The first two theories depended entirely on the credibility of witness Shabram. The third posed the thorny legal question under the patent laws whether delivery of a product constitutes a "sale" of the patented process by which it is made. As *Bill Johnson's Restaurants* makes abundantly clear, litigating such credibility issues and debatable points of law cannot be deemed a "sham." 103 S. Ct. at 2171.

The Court below never denied, but also never considered, Ethicon s "reasonable basis" for litigating these issues. It never paused to acknowledge that Handgards could not conceivably have obtained summary judgment on the first two theories based on Shabram's credibility.[6] It never paused to review the legal authorities cited in the opinion letter of Ethicon's patent counsel that concluded there was no invalidating "sale" of the Gerard process (DX 1110). In short, it never considered

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6 This Court noted in *Bill Johnson's Restaurants* that the "genuine issue of fact" test used on motions for summary judgment and the analogous "reasonable jury" test on motions for directed verdict were suitable guides for evaluation of a litigant's "reasonable basis" for bringing suit. 103 S. Ct. at 2171 n. 11.

whether there existed evidence or legal authorities from which the patent owner could colorably conclude the patent *might be valid.*[7] The Ninth Circuit merely concluded that there was sufficient evidence from which a jury could conclude that the patent was *invalid,* and from this same evidence upheld the jury inference that Ethicon "knew" it was invalid. (*See, e.g.,* App. A at 16a-17a; App. B at 35a). But this turns the *Bill Johnson's Restaurants* rule on its head. The proper question is not whether Ethicon had an open and shut case and Handgards no defense at all, but whether Ethicon had a reasonable basis for litigating its claim.

C. This Court Should Resolve the Conflict and Confusion Among the Circuits Regarding the Scope of the "Sham Exception"

A review of federal court decisions dealing with the *Noerr-Pennington* sham litigation exception reveals deep division and increasing confusion over the scope of the exception and the definition of "sham." In the most recent cases, courts have noted the undetermined scope of the exception as it relates to prior litigation and have regularly commented upon the absence of a clear legal standard for evaluation of claims of "sham litigation."

The following comments are illustrative: "The Supreme Court has never defined . . . the standard for determining when litigation is a sham." *Coastal States Marketing, Inc.* v. *Hunt,* 694 F.2d 1358, 1371 (5th Cir. 1983). "Whether a single legal proceeding . . . may be considered a basis of a 'sham' exception . . . is not altogether clear." *Cleveland v. Cleveland Electric Illuminating Co.,* 734 F.2d 1157, 1162 (6th Cir. 1984),

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7 In *Nemeroff v. Abelson,* 620 F.2d 339, 348 (2d Cir. 1980), the court held that a claim must be found "entirely without color" before attorneys fees could be assessed for bad faith litigation. It said:

> A claim is colorable, for the purpose of the bad faith exception, when it has some legal and factual support, considered in light of the reasonable beliefs of the individual making the claim. The question is whether a reasonable attorney could have concluded that facts supporting the claim *might be established,* not whether such facts actually *had been established.* [emphasis in original].

cert. denied, 53 U.S.L.W. 3269 (U.S., Oct. 9, 1984). "This Circuit . . . has not set forth any general definition of 'sham' litigation." *MCI Communications Corp. v. American Telephone & Telegraph Co.,* 708 F.2d 1081, 1156 (7th Cir.) *cert. denied,* ____ U.S. ____, 104 S. Ct. 234 (1983). "The cases are not uniform in setting out what must be shown to avoid the immunity of *Noerr-Pennington.*" *Sage International, Ltd. v. Cadillac Gage Co.,* 507 F. Supp. 939, 947 (E.D. Mich. 1981). "The precise dimensions of the sham exception . . . are far from clear." *Gainesville v. Florida Power & Light Co.,* 488 F. Supp. 1258, 1264 (S.D. Fla. 1980). "The United States Supreme Court has not yet decided whether litigation activity in the context of one lawsuit is conduct which is subject to the 'sham exception.' " *First National Bank of Omaha v. Marquette National Bank of Minneapolis,* 482 F. Supp. 514, 520 (D. Minn. 1979), *aff'd,* 636 F.2d 195 (8th Cir. 1980), *cert. denied,* 450 U.S. 1042 (1981).

These observations, coupled with the proliferation of antitrust claims premised on the sham exception,[8] demonstrate the compelling need for clarification from this Court. The following survey of recent decisions of the lower federal courts confirms the confusion, conflict and multiplicity of inconsistent rules that have evolved to deal with the issues presented in a case like *Handgards.*

The Ninth Circuit: *Handgards* strayed from the sham litigation doctrine as set forth in *California Motor Transport.* In *Handgards I,* the Court of Appeals funneled Ethicon's single lawsuit into the sham exception despite the absence of anticompetitive acts extrinsic to the lawsuit, and even though the determination of patent validity turned on the credibility of a witness. This *Handgards* decision, according to the D.C. Circuit, reflects "the furthest reach in patent enforcement antitrust liability jurisprudence. . . ." *Oetiker v. Jurid Werke GmbH,* 671 F.2d 596, 601 (D.C. Cir. 1982). Yet, in a case

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8 Appendix G to this Petition collects, on a year-by-year basis, all reported decisions since 1970 that deal with the *Noerr-Pennington* doctrine in connection with judicial or administrative litigation. As is apparent, such claims are precipitously increasing in frequency.

decided only five days after the instant case, a Ninth Circuit panel including two of the judges joining in *Handgards II* held that where a section 2 claim is based on a single suit rather than a pattern,

> a finding of sham requires not only that the suit is baseless, but also that it has other characteristics of grave abuse, such as being coupled with actions or effects external to the suit that are themselves anti-competitive.

Omni Resource Development Corp. v. Conoco, Inc., 739 F.2d 1412, 1414 (9th Cir. 1984).[9] Strangely, while *Handgards II* relies on the charge that Ethicon "lied" during the patent trial, the panel in *Omni Resources* held that an identical charge "can easily be levelled, and it is thus insufficient by itself to overcome *Noerr-Pennington* immunity." *Id.*

The Seventh Circuit: It has also refused to follow this Court's *Noerr-Pennington* doctrine. In *Grip-Pak, Inc. v. Illinois Tool Works, Inc.*, 694 F.2d 466 (7th Cir. 1982), it held that a single well-based lawsuit could lack immunity if brought for an anticompetitive motive. It has also suggested in dicta that a single lawsuit brought in bad faith can be the basis of an antitrust action. In *MCI Communications Corp. v. American Telephone & Telegraph Co., supra,* 708 F.2d at 1155, it opined "that the bringing of baseless claims—even the undertaking of a single sham state court lawsuit—is devoid of the constitutional significance that warrants immunity from the antitrust laws."

The Tenth Circuit: In sharp contrast to the views of the Ninth and Seventh Circuits, this Circuit has taken a restrictive approach to the sham exception. In the Tenth Circuit, fraud, corruption or misuse of the judicial process is clearly required before a lawsuit will be characterized as a sham. The mere

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9 As noted earlier, the Ninth Circuit's revision of *Handgards II* (*after Omni Resources* was issued) to characterize Ethicon's state of mind in bringing suit as an act "extrinsic" to the lawsuit itself exposes the hopeless tautology of the decision below.

filing of a lawsuit "without probable cause" and with anti-competitive intent will not forfeit *Noerr-Pennington* immunity. *Hydro-tech Corp. v. Sundstrand Corp.*, 673 F.2d 1171 (1982).

The Sixth Circuit gives strong approval to this narrow view of the exception. This Circuit has followed the *California Motor Transport* standard of "baseless, repetitive claims or abuse of processes" that bars "access to agencies and courts" as the predicate to antitrust liability. *Cleveland v. Cleveland Electric Illuminating Co., supra,* 734 F.2d at 1162.

The Fourth, Eighth and D.C. Circuits to a greater or lesser degree have also retained at least some elements of the *California Motor Transport* standards. *Hospital Building Co. v. Trustees of Rex Hospital,* 691 F.2d 678 (4th Cir. 1982) *cert. denied,* ____ U.S. ____, 104 S. Ct. 231 (1983); *Virginia Academy of Clinical Psychologists v. Blue Shield of Virginia,* 624 F.2d 476 (4th Cir. 1980); *Alexander v. National Farmers Organization,* 687 F.2d 1173 (8th Cir. 1982) *cert. denied,* ____ U.S. ____, 103 S. Ct. 2018 (1983); *Federal Prescription Service v. American Pharmaceutical Ass'n,* 663 F.2d 253 (D.C. Cir. 1981), *cert. denied,* 455 U.S. 928 (1983).

The Second Circuit: While the decisions within this Circuit also required more than one bad faith lawsuit to make out an antitrust violation, the confused state of the law is clearly reflected in its opinions. On the one hand, the oft-quoted opinion of the then District Judge Newman in *Mountain Grove Cemetery v. Norwalk Vault Co.,* 428 F. Supp. 951 (D. Conn. 1977) held that unless the single baseless lawsuit involves conduct that abuses or corrupts the judicial process, it does not come within the sham exception. This strongly-worded decision found accord in *Miracle Mile Associates v. City of Rochester,* 617 F.2d 18 (2d Cir. 1980) which held that "access-barring is the cornerstone to the sham exception." Yet three years later, the Second Circuit held that barring a competitor's access to courts or agencies was not a key factor. The suggested new standard was whether a defendant truly hoped to influence a government decision, and whether there was a reasonable expectation of doing so. *Litton Systems, Inc. v.*

Southwestern Bell Telephone Co., 700 F.2d 785 (2d Cir. 1983), *cert. denied*, ____ U.S. ____, 104 S. Ct. 984 (1984) (holding that the defendant's conduct was not protected by *Noerr-Pennington*). Significantly, on the identical facts before the Second Circuit in *Litton*, Judge Harold Greene of the D.C. District concluded that AT&T came within the protection of *Noerr-Pennington*. *United States v. American Telephone & Telegraph Co.*, 524 F.Supp. 1336 (D.D.C. 1981). The D.C. Circuit in *Jack Faucett Associates v. American Telephone & Telegraph Co.*, 1984-2 Trade Cas. (CCH) ¶ 66,186 (D.C. Cir. 1984) denied collateral estoppel effect to the *Litton* case on the basis of its irreconcilability with the conclusion reached by Judge Greene. The D.C. Circuit stated: "Each court applied the same doctrine to largely the same facts but reached opposite conclusions about the reach of *Noerr-Pennington*." 1984-2 Trade Cas. at p. 66,682.

The Fifth Circuit reflects similar confusion in its leading cases. One decision seemed to require that litigation be in good faith for *Noerr-Pennington* protection to attach; but at the same time the court lamented that the Supreme Court has never determined when litigation should be deemed a sham. *Coastal States Marketing, Inc. v. Hunt*, 694 F.2d 1358 (5th Cir. 1983). Another decision inconsistently required proof of "specific acts, other than those incidental to normal use of the courts," in order to find an antitrust violation. *Associated Radio Service Co. v. Page Airways, Inc.*, 624 F.2d 1342 (5th Cir. 1980), *cert. denied*, 450 U.S. 1030 (1981). And a recent district court decision required proof of fraud, perjury or other practices constituting a corruption of the judicial process before a defendant lost antitrust immunity. *Rohm & Haas Co. v. Dawson Chemical Co., Inc.*, 557 F. Supp. 739 (S.D. Tex. 1983), *rev'd on other grounds sub nom. Rohm & Haas Co. v. Crystal Chemical Co.*, 722 F.2d 1556 (5th Cir. 1983).

The First, Third and Eleventh Circuits have yet to speak directly on the issue. The district courts in these Circuits, however, are divided or confused. In *Codex Corp. v. Racal-Milgo, Inc.*, 1984-1 Trade Cas. (CCH) ¶ 65,853 (D. Mass. 1984), a district court held that misrepresentation of facts in a

single patent litigation could, if proven, constitute a sham under *Noerr-Pennington. See also Transitron Electric Corp. v. Hughes Aircraft Company,* 487 F. Supp. 885 (D. Mass. 1980), *aff'd on other grounds,* 649 F.2d 871 (1st Cir. 1981). A district court in Pennsylvania also recognized the *Handgards II* approach and protected a trade association's right to bring a lawsuit against competitors only "so long as the litigation has not been pursued in bad faith as a sham." *Zenith Radio Corp. v. Matsushita Elec. Indus. Co.,* 513 F. Supp. 1100, 1157 (1981), *aff'd in part and rev'd and remanded in part,* 723 F.2d 238 (3rd Cir. 1983). In contrast, however, another district court in Pennsylvania held that a pattern of litigation rather than one lawsuit was required for antitrust liability. *Bethlehem Plaza v. Campbell,* 403 F. Supp. 966 (E.D. Pa. 1975). And the only district court in the 11th Circuit confronting the issue stated that the scope of the sham exception to *Noerr-Pennington* is far from clear. *Gainesville v. Florida Power & Light Co.,* 488 F. Supp. 1258 (S.D. Fla. 1980).

Due to the confusion and inconsistent rules applied, multi-million dollar antitrust liability in cases like *Handgards* can turn on which Circuit—or which panel within a Circuit—happens to hear the case. The inevitable result of the conflicting standards for "sham litigation" imposed by the lower courts is to deter lawful conduct protected by the First Amendment and make good faith legal advice as to the risks inherent in bringing a lawsuit an exercise in futility.

In sum, the scope of the "sham exception" is one of the most litigated and one of the most significant unsettled antitrust issues in the courts today. The time is ripe for this Court to resolve the confusion and conflict with respect to this important doctrine.

II. The Abdication by Both the Trial Court and the Appeals Court of Their Duty to Make an Independent Evaluation of the Evidence Supposedly Proving "Sham Litigation" Effective Negates First Amendment Protection of the Right to Petition

This case presents to this Court the question of the proper standard of judicial review to be employed when an antitrust plaintiff seeks to strip a defendant's First Amendment immunity under *Noerr-Pennington* by charging a "sham." We submit that formulating a proper standard of review for guidance of the lower courts rivals in importance the need to formulate a clear definition of the sham litigation exception itself.

The question is a simple one and never squarely addressed by this Court or any lower court with the exception of the Ninth Circuit and the District Court in this case. It can be stated as follows: does the rule requiring independent judicial review of factual findings used to defeat a First Amendment right apply to review of a jury verdict stripping the antitrust defendant of its *Noerr-Pennington* immunity? If the answer is affirmative, the result below cannot survive, because neither the trial court nor the Court of Appeals undertook an independent examination of the evidence so as to determine whether Ethicon perpetrated a sham.

This Court has held time after time that substantive constitutional rights are not to be negated at the uncontrolled and unguided whim of the trier of fact. "Judges, as expositors of the Constitution, must independently decide whether the evidence in the record is sufficient to cross the constitutional threshold that bars the entry of any judgment that is not supported" by constitutionally sufficient findings of fact. *Bose Corp. v. Consumers Union of U.S., Inc.*, ____ U.S. ___, 104 S. Ct. 1949, 1965 (1984) ("*Bose*"). As the Court stated in *Bose*, "in cases raising First Amendment issues we have repeatedly held that an appellate court has an obligation to make an 'independent examination of the record' " and that this "rule of independent review assigns the judges a constitutional re-

sponsibility that cannot be delegated to the trier of fact, whether the factfinding function be performed in the particular case by the jury or by a trial judge." *Id.* at 1959. "[T]he simple fact is that First Amendment questions of 'constitutional fact' compel this Court's *de novo* review." *Id.* at 1964, n.27.[10]

The judicial review of factfinding required by *Bose* is by no means unique to First Amendment cases. For instance, *Baumgartner v. United States,* 322 U.S. 665 (1944), a denaturalization proceeding, held that where the defendant's subjective state of mind was an essential issue of fact and the plaintiff had the burden of proof on that issue by evidence that was " 'clear, unequivocal and convincing' "—language strikingly similar to that of *Handgards*—the entire evidentiary record would be independently reviewed to ascertain whether the exacting standard of proof had been satisfied. 322 U.S. at 671.

Likewise, Mr. Justice Frankfurter stated in *Watts v. Indiana,* 338 U.S. 49, 51 (1949), a case involving a coerced confession:

> [An] "issue of fact" is a coat of many colors. It does not cover a conclusion drawn from uncontroverted happenings, when that conclusion incorporates standards of conduct or criteria for judgment which in themselves are decisive of constitutional rights. Such standards and criteria, measured against the requirements drawn from constitutional provisions, and their proper applications, are issues for this Court's adjudication.

A finding of "sham litigation" used as a predicate to penalize petitioning activity is clearly a finding of constitutional fact, no less than was the finding of "actual malice" in *Bose*. The courts below in this case, however, disavowed any "special responsibility" as articulated in *Bose,* 104 S.Ct. at 1962. The District Court rejected the duty to conduct an

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10 Similarly, in *Bill Johnson's Restaurants, supra,* the Court concluded that because of the First Amendment right at stake the NLRB "should consider the evidence with the utmost care before ordering the cessation of a state-court lawsuit." *Id.* at 2171.

independent review of the evidence (App. D at 63a) and on appeal, the Ninth Circuit affirmed its refusal to do so:

> We did not establish [in *Handgards I*] such a standard for a threshold legal determination by a district judge. (App. A at 10a)

The Ninth Circuit also ruled it had no duty to make an independent evaluation of a record to determine whether Ethicon had engaged in sham litigation. It held:

> We cannot reverse the jury's findings unless if, without accounting for the credibility of the witnesses, we find that the evidence and its inferences, considered as a whole and viewed in the light most favorable to the nonmoving party can support one reasonable conclusion—that the moving party is entitled to judgment notwithstanding the verdict. (*Id.* at 9a)

This form of review negates the "sham" test of *Bill Johnson's Restaurants*—whether the plaintiff in the prior action, here Ethicon, could have had a reasonable basis for filing and prosecuting the lawsuit. It disregards the evidence in Ethicon's possession giving it a colorable basis for suing Handgards for infringement, and validates the after-the-fact "bad faith" determination based on the kind of adverse evidence that will be present in any case involving disputed facts. Indeed, under the Ninth Circuit's view, even the advice of counsel that such evidence is insufficient to invalidate the patent,[11] will not save a patent owner from antitrust liability:

> Finally, Ethicon contends that its reliance on patent counsel precludes a finding of bad faith based on the 'on sale'

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11 Such advice is usually held to be a complete defense to a charge of bad faith litigation, absent clear evidence that it was wholly contrived. *Western Electric Co. v. Stewart-Warner Corp.*, 631 F.2d 333, 337-38 (4th Cir. 1980); *Eltra Corp. v. Basic, Inc.*, 599 F.2d 745, 757-58 (6th Cir. 1979); *Dole Valve Co. v. Perfection Bar Equipment Co.*, 458 F.2d 1200 (7th Cir. 1972); *Hernon v. Revere Cooper & Brass, Inc.*, 494 F.2d 705 (8th Cir. 1974), *cert. denied* 419 U.S. 867 (1974).

> or 'in public use' defenses. However, Handgards presented evidence that showed Gerard had knowledge of the prior delivery and order to Aloe, and that Ethicon also was aware of this transaction. Thus, *if* the jury found the patent invalid by reason of the transaction, this knowledge *could* support a finding of bad faith. (App. A at 16a; emphasis supplied)

The so-called evidence that "Handgards presented" consisted of stipulated facts known to Handgards during the pendency of the patent action. Thus, the issue was one of pure federal substantive law: whether on these undisputed facts the Gerard invention was placed "on sale" within the meaning of 35 U.S.C. § 102(b). Handgards' patent counsel apparently agreed with the advice given by Ethicon's counsel since he elected not to move for summary judgment on this affirmative defense, and then formally abandoned it prior to the trial. Nevertheless, the trial court, with the Ninth Circuit's approval, allowed the jury to decide, on the basis of "expert" testimony as to the content of federal law, whether Ethicon had a colorable basis for not believing this defense to be airtight.

Even in an action not involving Constitutional protections, it is the duty of the judiciary, not the jury by evaluating "expert testimony," to determine the content of federal substantive law. In holding that an expert could not testify on the legal standards of conduct imposed by the federal securities law, the Court in *Marx & Co. Inc. v. Diners Club, Inc.*, 550 F.2d 505, 512 (2d Cir. 1977) stated:

> The danger is that the jury may think that the "expert" in the particular branch of the law knows more than the judge—surely an inadmissible inference in our system of law.

The only other evidence placed before the antitrust jury that was not in the prior patent action was gossip first related in 1975 by a discharged employee of Ethicon that Gerard "knew" his patent was invalid. This incompetent hearsay tale, had it

been known to Ethicon's outside patent counsel during the patent trial, would not have proven the patent invalid and would not have resolved the underlying credibility issues relating to Shabram's alleged prior public use. Indeed at both antitrust trials it was offered and received solely as evidence of Gerard's state of mind, not as evidence of actual invalidity. Yet, as *Bill Johnson's Restaurants* makes clear, the sham litigation test does not turn on the subjective state of mind even of the officers and attorneys responsible for prosecuting the suit, much less that of a person like Gerard with no such responsibility. Rather, the test is whether the facts that might be proved and applicable law provided a "reasonable basis" for litigation. Clearly they did.

This case shows how refusal to apply Constitutional procedural safeguards may lead to the deprivation of First Amendment substantive rights. This Court, which has so often recognized that procedural protections are the root guarantors of First Amendment rights, should formulate the proper standard for judicial review of the sufficiency of the evidence relied upon to establish the "sham" exception in a *Noerr-Pennington* case.

III. THE EFFECT OF PER SE ILLEGALITY GIVEN TO THE FINDING OF BAD FAITH PROSECUTION UNDERCUTS THE RIGHT TO PETITION AND CONFLICTS WITH THE RULINGS OF ALL OTHER CIRCUITS ON ATTEMPTS TO MONOPOLIZE

The Ninth Circuit completed its attack on enforcement of intellectual property rights here by giving a virtual *illegal per se* effect under section 2 to the alleged predatory act of "bad faith" prosecution of the prior suit.

First, it ruled without explanation that the adjudication of validity and infringement of Orsini and the coverage by that patent of the market created by Handgards for this case was "irrelevant" to the antitrust claim based on the market (App. A at 25a, n.23), and "in no way altered Ethicon's liability under the antitrust laws." *Id.* at 7a. Second, *Handgards II*

explicitly reaffirmed the ruling in *Handgards I* that "the requisite intent to monopolize in this case could be inferred from the finding of bad faith" (*Id.* at 18a). There was no direct or even circumstantial evidence of a specific intent to *illegally* monopolize the alleged market, which did not even exist until years after the suit was brought. Third, the court held that the absence of any evidence that competitors were actually excluded from the market by the infringement suit was also irrelevant to antitrust liability premised exclusively on the prosecution of that suit (*Id.* at 19a).

The practical result of these rulings was to render Ethicon liable for attempt to monopolize without any consideration of the real-world effects of the single act alleged to be illegal. Such a holding effectually strips the attempted monopoly doctrine of its antitrust objectives and converts it into some sort of Federal Unfair Business Practices Act to be applied when, as and if a jury in the Ninth Circuit, in its unexplained discretion, decides to do so.

This holding by the Ninth Circuit typifies its unique use of section 2 to punish under the antitrust laws what it regards as unfair acts. For example, in *Lessig v. Tidewater Oil Co.*, 327 F.2d 459 (9th Cir. 1964), *cert. denied*, 377 U.S. 993 (1964), it held that a predatory act not only sustains the inference of specific intent to monopolize but also eliminates necessity for proof of a relevant market. The Ninth Circuit in *Handgards II* relied heavily on the *Lessig* doctrine, repeatedly citing its leading recent attempt decision that follows *Lessig*: *William Inglis & Sons Baking Co. v. ITT Continental Baking Co.*, 668 F.2d 1014 (9th Cir. 1981), *cert. denied*, ____ U.S. ____, 103 S.Ct. 57 (1982) (*see* App. A at 18a-19a).

The continuous application of this doctrine in the Ninth Circuit has caused this Court to invite the comments of the Antitrust Division of the Department of Justice in the petition for certiorari now pending in *Blanton v. Mobil Oil Corp.*, 721 F.2d 1207 (9th Cir. 1983), *petition for cert. filed*, 52 U.S.L.W. 3875 (U.S. May 18, 1984) (No. 83-1896); *see id.*, 53 U.S.L.W. 3235 (U.S., Oct. 1, 1984) (order). This Court has recently

granted certiorari to review the Ninth Circuit's *per se* treatment given to the expulsion of one member from a trade association without proof of competitive injury. *Pacific Stationery & Printing Co. v. Northwest Wholesale Stationery,* 715 F.2d 1393 (9th Cir. 1983), *cert. granted,* 53 U.S.L.W. 3235 (U.S. Oct. 1, 1984) (No. 83-1368).

This case presents a similar unique *per se* treatment by the Ninth Circuit of a supposedly predatory act and, we submit, should be either combined for review with the two other cases raising similar issues now pending before this Court from the Ninth Circuit, or held for disposition in light of the Court's eventual decisions in *Blanton* and *Pacific Stationery.*

IV. THIS COURT SHOULD RESOLVE THE JURISDICTIONAL CONFLICT BETWEEN THE COURT OF APPEALS FOR THE FEDERAL CIRCUIT AND THE REGIONAL COURTS OF APPEALS IN CASES ARISING IN PART UNDER THE PATENT LAWS AND IN CASES WHERE PATENT AND ANTITRUST ISSUES ARE INEXTRICABLY INTERTWINED

This case presents the issue recognized by Congress as the critical jurisdictional knot in creating the CAFC: Does the new court have exclusive jurisdiction of an appeal if the jurisdiction of the original action in the district court was based "in part" on patent claims or claims whose resolution depends on issues of patent validity?[12]

The district court's jurisdiction derived from both a patent claim (*Orsini*) and an antitrust claim based solely on three charges of patent invalidity (*Gerard*). Handgards presented the Orsini patent claim by amending its complaint to seek a declaration of the invalidity of that patent, and Ethicon successfully counterclaimed for a decree of its validity and in-

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12 H.R. Rep. No. 97-312, 97 Cong. 1st. Sess. (1981) ("House Report") at 41; S. Rep. No. 97-275, 97th Cong. 1st Sess. (1982) ("Senate Report") at 2-3, 19-20.

fringement. Handgards did not appeal from that adverse determination. Nevertheless, under the rationale of the CAFC's en banc ruling in *Atari, Inc. v. JS&A Group, Inc.*, No. 84-742 (Fed. Cir. 11/8/84), the second appeal fell within its jurisdiction because jurisdiction of the district court was founded "in part" on the Orsini patent claim.[13] Moreover, the recent decision of the CAFC in *Chemical Engineering Corp. v. Marlo, Inc.*, 222 U.S.P.Q. 738 (Fed. Cir. 7/16/84) resolved CAFC jurisdiction on basis of implementing the Congressional purpose of developing "doctrinal stability" and "nationwide uniformity in patent law". This antitrust case was dependent solely on three defenses to patent validity and is properly viewed as a compulsory counterclaim to the patent action. *Cf. Burlington Industries v. Milliken & Co.*, 690 F.2d 380 (4th Cir. 1982), and cases cited therein.

Although the Ninth Circuit recognized that the district court's jurisdiction "arose in part" under the patent laws, it held that the CAFC did not have jurisdiction of the second appeal for two reasons: (1) transfer of the appeal to the CAFC would be "wasteful and foolish," because the Ninth Circuit decided the first appeal; and (2) Handgards' decision not to appeal that portion of the judgment validating the Orsini patent removed patent jurisdiction from the case.

The first reason is irrelevant to the jurisdictional issue. When Congress created the CAFC, it did not grandfather any jurisdiction in the regional appellate courts, except as to those

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13 Ethicon filed the appeal in the Ninth Circuit in January 1983, a few months after the CAFC came into being. In doing so, it pointed out the jurisdictional problem to the Ninth Circuit and called to its attention the duty to transfer the appeal to the CAFC if jurisdiction of the subject matter properly belonged there. While, as the Ninth Circuit points out, both parties suggested that that court had jurisdiction, Ethicon also pointed out that this "issue can reasonably be decided either way" (Ethicon's Supplemental Br. p. 10). The recent decisions of the CAFC as well as the Fifth Circuit on the scope of CAFC jurisdiction, discussed herein, take an approach that differs from that of the Ninth Circuit's here.

appeals taken before October 1, 1982.[14] Second, jurisdiction of the CAFC depends on the jurisdiction of the district court, not the presence or absence of prior activity in a regional court of appeals.

In short, as the Fifth Circuit recognized in a recently decided case where there was no formal pleading of a patent law violation but which depended upon resolution of patent rights, the scope of CAFC jurisdiction is "unsettled and presents important questions about appellate jurisdiction in cases with patent issues". *Marsh v. Austin-Fort Worth Coca-Cola Bottling Co.*, 744 F.2d 1044 (5th Cir. 9/19/84). Setting forth workable guidelines for such jurisdiction presents still another important reason for granting this petition.

CONCLUSION

For the reasons stated, a writ of certiorari to the Ninth Circuit should issue.

Respectfully submitted,

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14 Section 403 of Pub. L. 97-164 provided, in pertinent part:

"(e) Any case in which a notice of appeal has been filed in a district court of the United States prior to the effective date of this Act [October 1, 1982] shall be decided by the court of appeals to which the appeal was taken."

84-830

No. 84-____

FILED
NOV 20 1984
ALEXANDER L. STEVAS,
CLERK

IN THE

Supreme Court of the United States

OCTOBER TERM, 1984

ETHICON, INC.,

Petitioner,

—v.—

HANDGARDS, INC.,

Respondent.

APPENDIX TO PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE NINTH CIRCUIT

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10 pp

Index to Appendices

PAGE

Appendix A—*Handgards, Inc.* v. *Ethicon Inc.*, Nos. 83-1575, 83-1646 (9th Cir., Aug. 2, 1984) (unamended) and judgment thereon 1a

Appendix B—*Handgards, Inc.* v. *Ethicon Inc.*, Nos. 83-1575, 83-1646 (9th Cir., Sept. 26, 1984) (amending August 2 opinion) 34a

Appendix C—*Handgards, Inc.* v. *Ethicon, Inc.*, 601 F.2d 986 (9th Cir. 1979), *cert. denied*, 444 U.S. 1025 (1980) 37a

Appendix D—*Handgards, Inc.* v. *Ethicon, Inc.*, 552 F.Supp. 820 (N.D. Cal. 1982) 62a

Appendix E—*Handgards, Inc.* v. *Johnson & Johnson*, 1976-2 Trade Cas. (CCH) ¶ 61,138 (N.D. Cal. 1976) 70a

Appendix F—*Handgards, Inc.* v. *Johnson & Johnson*, 413 F.Supp. 921 (N.D. Cal. 1975) 80a

Appendix G—Cases Deciding *Noerr-Pennington*/Sham Litigation Issues 88a

Statutory Appendix 104a

Appendix A

UNITED STATES COURT OF APPEALS
FOR THE NINTH CIRCUIT

No. 83-1575
No. 83-1646

DC# CV-49491-SAW

HANDGARDS, INC., A CORPORATION,

Plaintiff-Appellee,

vs.

ETHICON, INC., A CORPORATION,

Defendant-Appellant.

Appeal from the United States District Court for the Northern District of California

Stanley A. Weigel, *District Judge*, Presiding

Argued and Submitted December 20, 1983

Before:

SNEED, KENNEDY, and BOOCHEVER,
Circuit Judges.

OPINION

SNEED, *Circuit Judge*:

Handgards, Inc. (Handgards) filed this suit against Ethicon, Inc. (Ethicon) for initiating and pursuing a series of bad faith patent infringement suits in an attempt to monopolize the market for heat-sealed plastic gloves sold to manufacturers of home hair coloring kits. A jury returned a verdict in favor of Handgards, and Ethicon appealed. In *Handgards, Inc. v. Ethicon, Inc.*, 601 F.2d 986 (9th Cir. 1979) (*Handgards I*), *cert. denied*, 444 U.S. 1025 (1980), we established a clear and convincing standard for section 2 antitrust liability resulting from the prosecution of a patent suit in bad faith. We then reversed and remanded this case for a new trial.

After a new trial, the jury found Ethicon liable under section 2 of the Sherman Act. The district court denied Ethicon's motion for a judgment notwithstanding the verdict. *See Handgards, Inc. v. Ethicon, Inc.*, 552 F. Supp. 820 (N.D. Cal. 1982) (*Handgards II*). Ethicon appeals this judgment in all respects. We affirm.

Ethicon's appeal raises the following issues:

1. Does this court have jurisdiction over this appeal?

2. Does substantial evidence support the jury's finding that Handgards had proven by clear and convincing evidence that Ethicon prosecuted its patent infringement action in bad faith in violation of section 2 of the Sherman Act?

3. Did the trial court err in refusing to instruct the jury that liability under the Sherman Act required a finding by the jury that Ethicon's patent infringement suit was a "sham" proceeding within the meaning of the *Noerr-Pennington* doctrine?

4. Were the injuries suffered by Handgards such as to afford it standing to seek treble damages under the Sherman Act as required by *Associated General Contractors of California, Inc. v. California State Council of Carpenters*, 103 S. Ct. 897 (1983)?

5. Was the damage award by the jury properly supported by the evidence?

6. Did the trial court err in awarding post-judgment interest from the date of the entry of the first judgment in 1976?

After concluding that this court has jurisdiction to hear and determine this appeal, we resolve each of these issues in a manner favorable to Handgards.

I.

FACTS AND PROCEEDINGS BELOW

A complete statement of the facts is set forth in *Handgards I*, 601 F.2d at 988-92; therefore, here we shall outline the history of the prior litigation only briefly.

In 1962 Ethicon filed a patent suit against Plasticsmith, Inc. and Mercury Manufacturing Company, two corporations that subsequently combined to form Handgards. Ethicon alleged that these corporations had infringed its Gerard and Orsini patents involving the production of plastic gloves. In 1968 the trial court entered judgment for Handgards because it found Ethicon's Gerard patent invalid on the basis of "prior public use" by Lyle Shabram. Ethicon had dropped its enforcement of the Orsini patent earlier in the case. This court affirmed the district court's decision, and the Supreme Court denied review. *Ethicon, Inc. v. Handgards, Inc.*, 432 F.2d 438 (9th Cir. 1970), *cert. denied*, 402 U.S. 929 (1971).

Meanwhile, in 1968 Handgards filed this civil antitrust action alleging that Ethicon and its parent, Johnson & Johnson, "had either unilaterally or in concert, monopolized, attempted to monopolize, and conspired to monopolize trade and commerce for the purpose of eliminating plaintiff as a competitor in the sale of disposable plastic gloves to the health care and medical markets." *Handgards I*, 601 F.2d at 989. Handgards also sought a declaration of invalidity of the Orsini patent. *Id.* at 991. The jury found the Orsini patent valid under a preponderance of the evidence proof standard; yet, it found

Ethicon liable for bad faith prosecution of the invalid Gerard patent. The jury also found that no conspiracy to monopolize had existed between Johnson & Johnson and Ethicon. Handgards was awarded $2,073,000 before trebling, *See id.* at 991-92. On appeal, we reversed the jury's antitrust verdict and imposed a clear and convincing standard of proof for bad faith prosecution of a patent infringement action. *Id.* at 996-98.[1]

After a new jury trial, the district court entered a verdict of $3,587,331 before trebling, attorneys' fees of $1,064,943, and about $3,000,000 in post-judgment interest, *Handgards II*, 552 F. Supp. at 824. Ethicon's motion for a judgment notwithstanding the verdict, or, in the alternative, a new trial was denied. *Id.* at 821.

II.

JURISDICTION

In 1982 Congress passed the Federal Courts Improvement Act of 1982 in part to promote predictability, uniformity, and the efficient administration of patent law. Pub. L. No. 97-164, 96 Stat. 25. *See* S. Rep. No. 275, 97th Cong, 1st Sess. 1, *reprinted in* 1982 U.S. Code Cong. & Ad. News 11. To achieve these goals, Congress created the United States Court of Appeals for the Federal Circuit (Federal Circuit). *See generally* Note, *An Appraisal of the Court of Appeals for the Federal Circuit*, 57 S. Cal. L. Rev. 301 (1984). The Federal Circuit was given exclusive jurisdiction "of an appeal from a final decision of a district court of the United States . . . if the jurisdiction of that court was based, *in whole or in part,* on section 1338." 28 U.S.C. § 1295(a)(1)(1982)(emphasis added). Section 1338(a) gives district courts exclusive jurisdiction over "any civil action arising under any Act of Congress relating to patents." 28 U.S.C. § 1338 (1982). Because section 1295 is in effect for all

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1 We also found "that no evidence of any overall scheme to monopolize exist[ed] *apart* from allegations that directly relate[d] to the bad faith prosecution charges." 601 F.2d at 994 (emphasis in original). Thus, Handgards' second claim of an "overall scheme" to monopolize was rejected.

appeals filed after October 1, 1982, *see* Pub. L. 97-164, § 402, 96 Stat. 57, it is applicable to this appeal. Both parties suggest that we have jurisdiction, and we agree.[2]

The phrase "based, in whole or in part, on section 1338," is new and, as far as we know, has not been interpreted in the context of a mixed patent/antitrust appeal by any court. Commentators have argued that this language could support several types of jurisdiction.[3] *See* Newman, *Tails and Dogs:*

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2 Our ability to determine whether this appeal lies within section 1291 or section 1295 is inherent in a court's ability to determine its own jurisdiction. *See United States v. United Mine Workers of America,* 330 U.S. 258 (1947); C. Wright, *The Law of Federal Courts* § 16 (4th ed. 1983).

3 Judge Jon O. Newman has summarized three basic approaches to the Federal Circuit's jurisdiction as follows:

> First, the CAFC [(Federal Circuit)] could have what might be called traditional "arising under" jurisdiction. Under this approach an entire case would be appealable to the CAFC if a claim in the district court arose under the patent laws. That approach would clearly send the whole case to the CAFC when the plaintiff asserted a patent claim (either of infringement or patent invalidity), but might not have this effect if the patent claim was asserted only as a defense. Second, the CAFC could have what might be called "case" jurisdiction. Under this approach, the entire case would be appealable to the CAFC, so long as there was a patent issue in the case, whether or not that issue was raised solely as a defense. Third, the CAFC could have what might be called "issue" jurisdiction. Under this approach, only the patent issues would be appealable to the CAFC, leaving the remaining issues for appeal to the court of appeals for the pertinent geographic area.

Newman, *supra,* at 238-39. A student note advances a fourth approach that combines both case and issue jurisdiction. *See* Note, *supra,* at 332-33. We believe that only one approach is possible under the language of the statute and its legislative history. Congress expressly adopted "arising under" jurisdiction and rejected case and issue jurisdiction. *See infra* text (quoting House and Senate Reports adopting "arising under" approach); S. Rep. No. 275, *supra,* at 19, *reprinted in* 1982 U.S. Code & Ad. News at 29 (rejecting case jurisdiction approach); *Hearings on Court of Appeals for the Federal Circuit Act of 1981,* H.R. Rep. No. 312, 97th Cong., 1st Sess. 41 (1981) (rejecting the issue jurisdiction approach adopted for the Temporary Emergency Court of Appeals in *Coastal States Marketing Inc. v. New England Petroleum Corp.,* 604 F.2d 179 (2d Cir. 1979)).

(footnote continued)

Patent and Antitrust Appeals in the Court of Appeals for the Federal Circuit, 10 Am. Pat. L.A.Q. J. 237, 238-39 (1982); Note, *supra,* at 326-33. The House Report states that "[c]ases will be within the jurisdiction of the Court of Appeals for the Federal Circuit in the same sense that cases are said to 'arise under' federal law for purposes of federal question jurisdiction." H.R. Rep. No. 312, 97th Cong., 1st Sess. 41 (1981). *See also id.* at 23-24. The Senate Report explicitly adopts the same position:

> It has been argued that a jurisdictional grant to the new court to consider appeals from a district court when jurisdiction was based, "in whole or in part," on section 1338 of title 23 [sic](which confers on the district courts original jurisdiction of any civil action arising under an act of Congress relating to patents, plant variety protection, copyright and trademarks) is too broad and that specious patent claims will be tied, for example, to substantial antitrust claims in order to create jurisdiction in the Court of Appeals for the Federal Circuit. However, the statutory language in question requires that the district court have jurisdiction under 28 U.S.C. § 1338. This is a substantial requirement.

S. Rep. No. 275, 97th Cong., *supra*, at 19, *reprinted in* 1982 U.S. Code Cong. & Ad. News at 29.

Whether the district court's jurisdiction here arose "under any Act of Congress relating to patents" presents a difficult issue.[4] We do have the benefit of hindsight, however, to

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We recognize that traditional "arising under" jurisdiction poses certain problems for patent appeals. *See* Lever, *The New Court of Appeals for the Federal Circuit (Part II Conclusion),* 64 J. Pat. Off. Soc'y 243, 254-58 (1982); Note, *supra,* at 328-30 (pointing out that many cases with substantial patent issues evade "arising under" jurisdiction because of the well-pleaded complaint rule and existing intercircuit conflicts on the issue of patent jurisdiction). However, Congress was aware of these problems and nonetheless chose to adopt the existing "arising under" framework. We are not free to disregard this express congressional intent.

4 For a discussion of "arising under" jurisdiction in the patent context, see C. Wright, A. Miller & E. Cooper, *Federal Practice and Procedure: Jurisdiction* § 3582 (1975 & 1980 Supp.).

determine what issues were adjudicated in the district court.[5] This hindsight facilitates the determination of the substantiality of the district court's jurisdiction under 28 U.S.C. § 1338 (1982) in both trials. In the district court proceedings from which this appeal is taken (*Handgards II*) the jurisdiction of that court was neither based in whole or in part on section 1338. The entire proceeding was based on the antitrust laws. *See* 15 U.S.C. § 4 (1982). Jurisdiction under section 1338 was irrelevant.[6] The situation with respect to *Handgards I* is more complicated. True, the major thrust of the district court proceedings in *Handgards I* was toward the antitrust laws, but it is also true that in those proceedings the validity of the Orsini patent was litigated. The determination that the Orsini patent was valid, however, in no way altered Ethicon's liability under the antitrust laws.[7] It, of course, had no effect on our jurisdiction to hear and determine the *Handgards I* appeal because at that time 28 U.S.C. § 1295(a)(1)(1982) had not been enacted. *See* 28 U.S.C. § 1291 (1976). Whether it would have deprived

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5 An appellate court must look beyond the stated jurisdictional basis to determine the nature of the claims actually litigated. *See* C. Wright & A. Miller, *Federal Practice and Procedure: Civil* § 1206, at 77 (1969)

6 Of course, the fact that this suit required an interpretation of the patent laws to determine antitrust liability does not make it "arise under" section 1338. *See Koratron Co. v. Deering Milliken, Inc.*, 418 F.2d 1314, 1316-18 (9th Cir. 1969), *cert. denied*, 398 U.S. 909 (1970)

7 In 1968 Handgards filed this antitrust suit against Ethicon under (1) an "overall scheme" theory and (2) a "bad faith" prosecution theory to monopolize the disposable glove market. *See Handgards, Inc. v. Johnson & Johnson*, 413 F.Supp. 921, 923-25 (N.D.Cal. 1975). The bad faith prosecution theory was based on Ethicon's Gerard patent infringement suit. Before trial, however, the district judge required that Handgards amend its complaint to include a request to declare the Orsini patent invalid. After the jury's finding that the Orsini patent was not invalid, Judge Orrick found that the Orsini patent was irrelevant to the antitrust injury caused by Ethicon's bad faith prosecution of the invalid Gerard patent. Thus, the question of the Orsini patent's validity completely dropped out of the antitrust suit. Handgards did not appeal the jury's Orsini patent verdict in *Handgards I*, and it was not raised during the second trial in *Handgards II*.

us of jurisdiction had it been in effect is an issue we need not address. The important fact is that both we and the district court had jurisdiction beyond question in *Handgards I*. It would be both wasteful and foolish for us now to hold that we lack jurisdiction to hear and determine the appeal in *Handgards II* because had section 1295(a)(1) been effective in 1979 our appellate jurisdiction in *Handgards I* would have been subject to question. We, therefore, hold that we have jurisdiction to hear and determine this *Handgards II* appeal. Under these circumstances, the district court's jurisdiction in *Handgards II* was not based, in whole or in part, on section 1338 jurisdiction.

Our holding obviously foreswears any attempt to establish definitively the precise scope of 28 U.S.C. § 1295(a)(1) (1982).[8] It is a perplexing statute the meaning of which we suspect will become fixed only by means of case-by-case analysis. To observe judicial restraint and decide no more than we must is the appropriate course here.

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8 District courts should take special measures to ensure that litigants do not manipulate the jurisdiction of the Federal Circuit:

> Federal District judges are encouraged to use their authority under the Federal Rules of Civil Procedure, *see* Rules 13(i), 16, 20(b), 42(b), 54(b), to ensure the integrity of the jurisdiction of the federal court of appeals by separating final decisions on claims involving substantial antitrust issues from trivial patent claims, counterclaims, cross-claims, or third party claims raised to manipulate appellate jurisdiction.

S. Rep. No. 1275, *supra*, at 20, *reprinted in* 1982 U.S. Code Cong. & Ad. News at 30. The district court may also sever the unrelated nonpatent claims from the patent claims under Fed. R. Civ. P. 21. *See* Committee on Patents, *The New Court of Appeals for the Federal Circuit* 749-50 (1983). Such severance practices along with explicit findings on whether "arising under" section 1338 jurisdiction exists will ensure "that the tail of a patent issue does not wag the dog of an antitrust issue." Newman, *supra*, at 242. *See also* Lever, *supra* note 3, at 258-65.

III.

ARE THE JURY FINDINGS PROPERLY SUPPOKTED BY THE EVIDENCE

In *Handgards I*, 601 F.2d at 994-96, we held that to establish section 2 liability Handgards had to prove (1) by clear and convincing evidence that Ethicon prosecuted the Gerard patent suit in bad faith;[9] (2) that Ethicon had a specific intent to monopolize the relevant market; and (3) that a dangerous probability of success existed. On appeal, Ethicon argues that it is entitled to judgment as a matter of law and that no substantial evidence supports the jury's finding on each of the section 2 elements.

We cannot reverse the jury's finding unless "if, without accounting for the credibility of the witnesses, we find that the evidence and its inferences, considered as a whole and viewed in the light most favorable to the nonmoving party can support one reasonable conclusion—that the moving party is entitled to judgment notwithstanding the adverse verdict." *William Inglis & Sons Baking Co. v. ITT Continental Baking Co., Inc.* 668 F.2d 1014, 1026 (9th Cir. 1981), *cert. denied*, 459 U.S. 825 (1982). We shall review the evidence under headings corresponding to the issues in which Handgards had the burden of persuasion.

A. *Clear and Convincing Evidence of Bad Faith Prosecution of the Patent Suit*

Handgards presented evidence that Ethicon actually knew that the Gerard patent was invalid on one or more of three separate grounds. First, it alleged that Ethicon knew that Lyle Shabram, not Gerard (an Ethicon employee), was the first inventor of the plastic glove process. *See* 35 U.S.C. § 102(g) (1982). (The Prior Invention Issue.) Thus, Ethicon fabricated Gerard's invention dates during the patent infringement litiga-

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9 In these cases the anticompetitive conduct directed to accomplishing the unlawful purpose is the bad faith prosecution of the patent infringement suit.

tion interrogatories to appear earlier than Shabram's dates of invention. Second, Handgards alleged that even if its dates were correct, Ethicon knew that the patent was invalid under the "on sale" or "in public use" defense because Gerard had sold gloves to A.S. Aloe in 1957, more than one year before he filed a patent application. *See* 35 U.S.C. § 102(b) (1982). (The "On Sale" or "In Public Use" Issue.) Finally, Handgards contends that Ethicon definitely knew of Shabram's prior public use in 1963, and yet it continued to litigate the patent suit through trial and appeal to the Supreme Court. (The Prior Public Use by Shabram Issue.) These theories were asserted to prove that Ethicon prosecuted the patent infringement suit in bad faith in an effort to monopolize the relevant market. We shall evaluate the evidence with respect to each of these theories.

Before doing that, however, we must address some fundamental challenges with respect to the trial court proceedings. Ethicon challenges the district judge's submission of these issues to the jury and his alleged prejudicial conduct toward Ethicon throughout the trial.

Ethicon argues that the district judge must make a threshold legal determination whether Handgards had established, by clear and convincing evidence, that the Gerard patent was invalid on the basis of any grounds not previously litigated in the patent suit before submitting such grounds to the jury in the instant case. This is not so. In *Handgards I*, 601 F.2d at 996, we established a clear and convincing evidence standard for a jury's factual finding of bad faith. We did not establish such a standard for a "threshold legal determination" by a district judge.

Ethicon's argument also challenges the district court's submission to the jury of the unlitigated defenses of patent invalidity. Only Shabram's prior public use defense was litigated in the earlier patent infringement suit. We agree that district courts must be especially careful when submitting to a jury unlitigated patent defenses. Here, however, we find that the district judge acted properly. The factual inconsistencies relating to Ethicon's Gerard patent required that Handgards

present all of the defenses. Under the alleged facts, the Gerard patent could have been invalid under any one or all of the submitted defenses. It was up to the jury to decide whether a defense existed and whether Ethicon actually knew that the patent was invalid on the basis of the defense.[10]

Ethicon also argues that the trial judge's conduct constituted prejudicial error. It contends that the trial judge applied a different set of rules to Ethicon, made hostile comments to Ethicon's counsel, and interrupted Ethicon's direct and cross examination. Thus, Ethicon claims that the judge's actions tainted the jury's impression of Ethicon in a case in which the primary issue was bad faith. Our review of the record leads us to reject this conclusion.

Very few cases outside of the criminal law area support an appellate finding of general judicial misconduct during trial. *See* C. Wright & A. Miller, *supra* note 5, § 2809, at 66 (1973 & 1982 Supp.). The standard for reversal is whether the trial was unfair. *See Goldman v. Fenn*, 252 F.2d 47, 48 (1st Cir. 1958). A trial is not unfair unless the trial judge expresses his opinion as to an ultimate issue of fact in front of a jury or argues for one of the parties in the suit. *See Maheu v. Hughes Tool Co.*, 569 F.2d 459, 471-72 (9th Cir. 1978); *Nordmann v. National Hotel Co.*, 425 F.2d 1103, 1109 (9th Cir. 1970). Ethicon does not allege such conduct, and no evidence exists to support an inference that the trial judge affected the jury's inquiry into bad faith.

Complex antitrust cases tried before a jury present difficult problems for a trial judge. *See generally* W. Schwarzer, *Managing Antitrust and Other Complex Litigation* (1982). In this case the trial judge limited the trial presentations to four days for each side. Because Handgards completed its case in one half the allotted time, the judge appropriately gave more latitude to its presentation. Ethicon's presentation posed more problems

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10 The district judge did instruct the jury that first it had to determine the invalidity of the patent on the basis of a particular defense and then only could it determine whether Ethicon knew the patent was invalid on the basis of that defense.

for the court. We find no objection to the judge's conduct during trial. No error exists. We now turn to Handgards' three theories.

1. *The Prior Invention Issue*

During the second trial, Handgards focused its presentation on the facts showing that by 1964 Ethicon had acquired sufficient information to indicate with certainty that the Gerard patent was invalid on the basis of Shabram's prior invention. Handgards asserted that instead of abandoning the suit, Ethicon in 1967 fabricated a date earlier than that of Shabram's invention in response to Handgards interrogatories. To support its allegations, Handgards introduced evidence that Gerard discovered the use of paper as a backing and carrier on May 24, 1957, and did not solve the sticking problem until November 1957. This evidence, which consisted of Gerard's communications to his patent attorney in 1958 and Gerard's sworn depositions taken in 1959, directly conflicted with Ethicon's interrogatory answer in 1967 that Gerard had developed the process in 1956.

Ethicon attempts to counter this proof in several ways. First, it argues that because Handgards did not attempt to prove that Shabram was a prior inventor, it cannot claim that Ethicon should have known that the Gerard patent was invalid on the basis of section 102(g).[11] This is incorrect. Handgards did offer proof of both Shabram and Gerard's dates of conception and reduction to practice. It is Ethicon that failed to present evidence that would have questioned Shabram's dates of invention or conception. In fact, Handgards presented a former employee of Ethicon, Mr. Baab, who testified that Gerard, an

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11 Ethicon also contends that when Shabram abandoned his interference proceeding, under established patent law he conceded priority of invention. *See* 35 U.S.C. § 135 (1982); 37 C.F.R. § 1.262(b)(1982). We disagree. Although it is true that an abandonment of an interference proceeding operates as an adverse award of priority, we do not believe this patent rule was intended to determine whether a party knew that its patent was invalid because of prior invention. To determine this actual knowledge, we must allow Handgards to present evidence of Shabram's priority.

employee of Ethicon, had told him that the Gerard patent was invalid on the basis of Shabram's prior art. Ethicon vigorously objects to the introduction of this evidence. It contends that the relevant inquiry is whether Ethicon's attorney knew of the prior invention, not Gerard. We disagree. It is true that Handgards had to prove that the agents, officers, and directors of Ethicon responsible for prosecuting and maintaining the suit were in possession of facts that prevented them from holding a good faith belief that the Gerard patent was valid. However, evidence that the inventor/patentee/employee knew the patent was invalid is very probative of Ethicon's knowledge. *Cf. W.R. Grace & Co., Inc. v. Western U.S. Industries, Inc.*, 608 F.2d 1214, 1218-19 (9th Cir. 1979), *cert. denied*, 446 U.S. 953 (1980). We refuse to establish a requirement that Handgards had to prove that the patent attorney knew the Gerard patent was invalid.

Second, Ethicon argues that the district court erred by allowing Handgards' expert to testify on Gerard's reduction to practice date. We disagree. "The trial court is vested with broad discretion concerning the admissibility or exclusion of expert testimony and the court's action is to be sustained unless shown to be manifestly erroneous." *Reno-West Coast Distribution Co., Inc. v. The Mead Corp.*, 613 F.2d 722, 726 (9th Cir.), *cert. denied*, 444 U.S. 927 (1979). The presentation of an expert's testimony was entirely appropriate to show the facts necessary for a reduction to practice.

Third, Ethicon argues that Gerard's invention was reduced to practice in September 1956. It contends that the fact that the paper backing had not been discovered until May 1957 did not prevent a reduction to practice in 1956. Handgards, however, argues that the paper carrier distinguished Gerard's invention from the prior art. Handgards also introduced evidence that Gerard's patent counsel and Johnson & Johnson's in-house patent counsel accepted a November 1957 reduction to practice date on the basis that the paper sticking problem (an essential element of the invention) had been solved. We believe that under these circumstances the district judge properly left the evidence for the jury to determine the date on which Ethicon believed that Gerard had reduced his invention to practice.

Finally, Ethicon argues that Handgards cannot attack Gerard's reduction to practice date because during the patent trial Handgards accepted the date by stipulation and during the second antitrust trial Handgards conceded that Ethicon's interrogatory answer had not prejudiced its patent trial. We disagree. A stipulation of a fact in a patent trial in which the fact was not necessary to prove the defense that was going to be litigated cannot bind Handgards in a susbsequent antitrust trial in which Handgards attempts to prove that Ethicon's answer to the interrogatory was knowingly falsified. After all, it is Ethicon's bad faith in the patent trial that is at issue; thus, Handgards must be allowed to challenge the interrogatory answer. Our review of the record convinces us that the Gerard reduction to practice issue was properly submitted to the jury.

2. *The "On Sale" or "In Public Use" Issue*

Under 35 U.S.C. § 102(b) (1982), if Gerard placed his invention "on sale" or "in public use," he had one year to file for a patent. Because Gerard filed for a patent on June 2, 1958, the invention could not have been "on sale" or "in public use" prior to June 2, 1957, for his patent to be valid. Handgards introduced evidence that on May 28, 1957, Gerard had sold one gross of gloves and had taken an order for seventy-two gross from A.S. Aloe. This could be viewed as having invalidated the patent.

To avoid this result, Ethicon in the patent case argued that the first sale did not occur until November 24, 1957. However, if this was the crucial date with respect to the patent's validity, Ethicon is confronted with two damaging consequences. Shabram's prior invention would invalidate Ethicon's patent, *see infra* pp. 17-18, and the November 24, 1957 date is inconsistent with Ethicon's assertion in 1967 that the Gerard process was developed in 1956. *See supra* p. 12.

On the other hand, were 1956 the crucial date the issue whether Gerard placed his invention "on sale" or "in public use" prior to June 2, 1957 becomes critically important. For this reason the A. S. Aloe transaction must be considered. It was quite proper for the jury to have been given the opportu-

nity to consider these alternatives although this involved submission to tne jury of defenses not previously litigated in the patent suit.

Ethicon also argues that the Gerard patent covered the process of making the gloves, not the product (gloves), thus the Aloe transaction could not invalidate the patent. We disagree. The district judge's jury instruction combined the "on sale" and "in public use" defenses because the Aloe transaction raised a possibility that the patent was invalid under either. Although it is clear that the "on sale" and "in public use" defenses are separate, many courts have evaluated them together. *See, e.g., Dart Industries, Inc. v. E.I. Du Pont De Nemours and Co.*, 489 F.2d 1359, 1364-65 (7th Cir. 1973), *cert. denied,* 417 U.S. 933 (1974). This is entirely appropriate in cases in which the product of the process is sold. *See Powell Manufacturing Co. v. Long Manufacturing Co.*, 319 F. Supp. 24, 44 (E.D. N.Car. 1970), *aff'd,* 171 U.S.P.Q. 328 (4th Cir. 1971); *Kalvar Corp. v. Xidex Corp.*, 556 F.2d 966 (9th Cir. 1977). In such cases the sale of a product before the critical date will invalidate the process patent under the "in public use" defense. *See Metallizing Engineering Co. v. Kenyon Bearing & Auto Parts Co.*, 153 F.2d 516 (2d Cir.), *cert. denied,* 328 U.S. 840 (1946). Courts also have found that a sales solicitation that involved the display of operable samples of the invention constituted placing the invention "on sale" even when production models were not available for delivery. *See, e.g., Amphenol Corp. v. General Time Corp.*, 397 F.2d 431, 436-37 (7th Cir. 1968); *J.L. Clark Manufacturing Co. v. American Can Co.*, 256 F. Supp. 719, 730-35 (D. N.J. 1966). Thus, the Aloe transaction could have invalidated the patent even if the process, not the product, was the object of the patent.

Ethicon also argues that the Aloe transaction falls within the experimental use exception to section 102(b) as a matter of law. We disagree. Handgards presented evidence that Gerard had stated that the Aloe transaction was a commercial sale and for purposes of generating orders. Although Ethicon contested this evidence, it did not introduce such evidence that would require

us to grant an experimental use exception as a matter of law. The issue was properly before the jury.

Finally, Ethicon contends that its reliance on patent counsel precludes a finding of bad faith based on the "on sale" or "in public use" defenses. However, Handgards presented evidence that showed Gerard had knowledge of the prior delivery and order to Aloe, and that Ethicon also was aware of this transaction. Thus, if the jury found the patent invalid by reason of the transaction, this knowledge could support a finding of bad faith.

3. *The Prior Public Use by Shabram Issue*

The prior public use by Shabram defense was litigated in the patent trial.[12] Using a "beyond a reasonable doubt" standard, Judge Burke found the Gerard patent invalid because of Shabram's prior use. Handgards presented the testimony of Mr. Baab, who said that Gerard had told him that he had purchased a glove prior to his invention. To support its allegation of Ethicon's bad faith prosecution, Handgards showed that during the patent trial, Shabram's testimony was corroborated by five witnesses. Ethicon, on the other hand, produced no evidence in the patent trial directly contradicting this testimony. Yet, it continued to litigate the patent through the Supreme Court's denial of certiorari.

Ethicon primarily argues that its patent counsel disbelieved Shabram and his witnesses. It points to prior inconsistent statements by Shabram and his self-interest as the alleged prior inventor to support its right to contest his testimony. Ethicon also quotes from this court's decision affirming Judge Burke with the caveat that the decision "could have been decided either way." *Ethicon, Inc. v. Handgards, Inc.*, 432 F.2d 438, 438 (9th Cir. 1970), *cert. denied*, 402 U.S. 929 (1971). Ethicon therefore argues that this evidence should bar Handgards from

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12 Ethicon argues that Handgards conceded the use of Shabram's prior public use as a basis for bad faith prosecution. This is not supported by the record. The district judge clearly instructed the jury as to the law on this defense.

relitigating the issue in this antitrust case. We disagree. Our review of the record indicates that Handgards' evidence of Gerard's knowledge of prior use requires that this issue go to the jury.[13] This evidence was not available in the patent suit; thus, both the district court and the circuit court's opinions should not bar litigation of this issue for the first time. The district court properly instructed the jury that the fact that Ethicon lost the prior suit did not establish that it was brought in bad faith. The jury had to determine whether Ethicon initiated or pursued the infringement suit against Handgards knowing that the patent was invalid.

4. *Conclusion as to the Clear and Convincing Evidence of Bad Faith*

Our examination of the record convinces us that the district court properly instructed the jury in accordance with our opinion in *Handgards I.* The jury was instructed that a patent is presumptively valid and that presumption can only be rebutted with clear and convincing evidence. *See* 601 F.2d at 996. Substantial evidence exists to support a finding by the jury that Handgards established such a rebuttal and that Ethicon prosecuted its patent suit in bad faith.

B. *Specific Intent to Monopolize the Relevant Market*

Ethicon argues that its repeated attempts to license both the Gerard and the Orsini patents preclude a finding of a specific intent to monopolize as a matter of law. It contends that Handgards refusal to negotiate prevents it from now challenging the terms of the license offers as unreasonable. We disagree. Handgards presented substantial evidence to support the jury's finding of specific intent.

Courts have used the requirement of specific intent "to confine the reach of an attempt claim to conduct threatening

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13 Ethicon also argues that Gerard's alleged expressions of opinion should not be imputed to the corporation. As stated before, Gerard's involvement in both the invention and subsequent production of plastic gloves requires that this testimony go to the jury.

monopolization." *William Inglis,* 668 F.2d at 1027 (citations omitted). An antitrust plaintiff can establish the existence of specific intent not only by direct evidence of unlawful design, but by circumstantial evidence of illegal conduct. Id. Thus, as we said in *Handgards I*, 601 F.2d at 993 n.13, "[t]he requisite intent to monopolize in this case could be inferred from the finding of bad faith." Substantial evidence exists to support such an inference.

Handgards, presented evidence that once it had become a viable competitor with twenty-five percent of the market in 1964, Ethicon took steps to eliminate competition from the relevant market. The most damaging evidence introduced was a letter written by Gerard, an Ethicon employee, to Sam Porter, a major distributor and potential joint venturer of hair care gloves. This letter asserted the validity of Ethicon's Gerard patent and the company's intent to enforce the patent.[14] After the letter was received, Porter stopped purchasing gloves from Handgards and refused to negotiate any joint venture with Handgards. Ethicon also sent a similar letter to several other purchasers of hair care gloves. This evidence along with the prosecution of a bad faith patent suit provides a sufficient basis for a jury's finding of specific intent to monopolize. Ethicon's argument that its repeated license offers negated this intent was presented to and rejected by the jury. The mere existence of license offers does not require that we ignore the strong evidence presented by Handgards which supports the jury's finding.[15]

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14 Gerard wrote:

> If you will read this patent, you will find that anyone manufacturing plastic gloves on paper are in violation. At this time, we have a patent infringement trial upon the Federal Court calendar in the Northern Jurisdiction of California.
>
> I can assure you that this patent is enforceable or Ethicon would never have purchased it from me at the cost they paid without first investigating it very thoroughly. I can also assure you that our legal department intends on enforcing this patent.

15 Ethicon's argument that Handgards should have accepted its license offer on both patents, and subsequently sued for an antitrust violation is not

C. *Dangerous Probability of Success Within the Relevant Market*

Ethicon argues that Handgards' failure to prove actual exclusion of competition from any market prevents a finding of a dangerous probability of success. We have never established an actual exclusion requirement.[16] A jury may infer a dangerous probability of success "either (1) from direct evidence of specific intent plus proof of conduct directed to accomplishing the unlawful design, or (2) from evidence of conduct alone, provided the conduct is also the sort from which specific intent can be inferred." *William Inglis,* 668 F.2d at 1029 (footnotes omitted). Of course, proof of direct market power on the part of the defendant tends to support a finding of a dangerous probability of success.

In this case Handgards presented evidence showing that Ethicon controlled ninety percent of the relevant market of hair care gloves and that no competition emerged until the district court declared the Gerard patent invalid. Although Ethicon disputes this evidence, no facts have been presented that would require a reversal of the jury's finding.[17]

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convincing. At the time Ethicon offered the patent licenses, the law of "license estoppel" was unclear. *See Lear, Inc. v. Adkins,* 395 U.S. 653, 661-68 (1969). Thus, the existence of the license may have prevented a subsequent challenge of the patent's validity. This uncertainty also was aggravated by the fact that Handgards had not fully developed its theory to challenge Ethicon's conduct. Handgards acceptance of the licenses may have precluded certain avenues of relief. *See, e.g., Automatic Radio Manufacturing Co., Inc. v. Hazeltine Research, Inc.,* 339 U.S. 827 (1950). Given this situation, a license offer should not preclude as a matter of law a finding of intent to monopolize. It was proper for the jury to consider Ethicon's offers and Handgards refusal to negotiate. The jury also properly evaluated Handgards' evidence that the license offers were unreasonable.

16 Ethicon's citation to *Carpet Seaming Tape Licensing Corp. v. Best Seam, Inc.,* 694 F.2d 570, 580 (9th Cir. 1982), *cert. denied,* 104 S. Ct. 78 (1983), does not support its actual exclusion argument.

17 Ethicon also argues that the relevant market of heat sealed gloves sold to hair care kit manufacturers is improper as a matter of law. We disagree. We have said repeatedly that the definition of a relevant market is

Handgards' evidence has met our requirement of proof "that the defendant patentee possessed or threatened to possess an ability to lessen competition in the relevant market." *Handgards I,* 601 F.2d at 993 n.13.

IV.

THE *NOERR-PENNINGTON* ISSUE

The *Noerr-Pennington* doctrine recognizes an immunity from antitrust liability rooted in the recognition of fundamental civil rights. *See Eastern Railroad Presidents Conference v. Noerr Motor Freight, Inc.,* 365 U.S. 127 (1961); *United Mine Workers of America v. Pennington,* 381 U.S. 657 (1965). "Under the *Noerr-Pennington* doctrine, bona fide efforts to obtain or influence legislative, executive, judicial or administrative actions are immune from antitrust liability [on the basis of the first amendment's guaranteed right to petition]." *Clipper Exxpress v. Rocky Mountain Motor Tarriff Bureau, Inc.,* 690 F.2d 1240, 1251 (9th Cir. 1982), *cert. denied,* 103 S.Ct. 1234 (1983). However, the immunity does not extend to so-called "sham proceedings," which were instituted without probable cause and in complete disregard of the law to interfere with the business relationships of a competitor. *Id.* at 1251-54; *California Motor Transport Co. v. Trucking Unlimited,* 404 U.S. 508 (1972). The justification for the doctrine does not exist under such circumstances. Ethicon argues that the district court's refusal to instruct the jury on *Noerr-Pennington* immunity and to require a finding of a sham proceeding deprived it of access to the antitrust immunity and thus constituted reversible error. We disagree.

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an issue of fact for the jury. *See, e.g., Greyhound Computer Corp., Inc. v. International Business Machines Corp.,* 559 F.2d 488, 493-96 (9th Cir. 1977), *cert. denied,* 434 U.S. 1040 (1978). *See also Telex Corp. v. International Business Machines Corp.,* 510 F.2d 894, 914-19 (10th Cir.), *cert. dismissed,* 423 U.S. 802 (1975). Thus, the jury's finding will not be disturbed unless it is clearly erroneous. In this case substantial evidence exists to support a jury's finding that excluded other gloves (e.g., industrial, household) from a definition of the relevant market.

In *Clipper Express* we held that to invoke the sham exception to *Noerr-Pennington* immunity the plaintiff must prove that the defendant's litigation of baseless claims constituted some abuse of process. 690 F.2d at 1259. We believe that *Handgards I* established a standard that embodies both the *Noerr-Pennington* immunity and the sham exception. There we held that "the jury should be instructed that a patentee's infringement suit is presumptively in good faith and that this presumption can be rebutted only by clear and convincing evidence [of bad faith]." 601 F.2d 996. The good faith presumption affords the equivalent of the *Noerr-Pennington* immunity while the requirement of bad faith litigation easily affords the equivalent of the sham exception. *See* R. Bork, *The Antitrust Paradox* 354 (1978) ("Certainly, in a proper case, a proved intent not to bar competitors from the courtroom but, by litigation of baseless claims, to bar them from a market or to delay their entry should suffice for a violation of the Sherman Act."). Thus, to require a jury instruction as to *Noerr-Pennington* immunity and the sham exception would be duplicative.[18] *See Handgards I,* 601 F.2d at 995 n.16.

V.

THE ANTITRUST STANDING OF HANDGARDS

In order to receive treble damages under 15 U.S.C. § 15 (1982), Handgards must prove that it has been injured by reason of a violation of the antitrust laws. The Supreme Court recently observed that the question of antitrust standing "requires us to evaluate the plaintiff's harm, the alleged wrongdoing by the defendants, and the relationship between them." *Associated General Contractors of California, Inc. v. Califor-*

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18 Ethicon argues that the existence of nonlitigated defenses cannot render a patent suit a sham under this circuit's *Noerr-Pennington* precedent. We disagree. If Ethicon knew that the Gerard patent was invalid under a defense, it is irrelevant that the defense was not litigated in the patent infringement suit. All that is required for a finding of bad faith is the fact that the suit should have never been brought at all.

nia State Council of Carpenters, 103 S. Ct. 897, 907 (1983). The Supreme Court articulated six factors that should be considered in determining whether a plaintiff has antitrust standing:

> (1) The causal connection between the alleged antitrust violation and the harm to the plaintiff; (2) Improper motive; (3) Whether the injury was of a type that Congress sought to redress with the antitrust laws; (4) The directness between the injury and the market restraint; (5) The speculative nature of the damages; (6) The risk of duplicate recoveries or complex damage apportionment.

McDonald v. Johnson & Johnson, 722 F.2d 1370, 1374 (8th Cir. 1983) (citing *Associated General Contractors,* 103 S. Ct. at 908-12), *cert. pending,* 52 U.S.L.W. 3792 (1984). Because these factors focus upon the relationship between the type of injury for which damages are sought and the harmful conduct, we shall examine the relationship between each of Handgards' damage elements and the harmful conduct.

A. *Handgards' Lost Profits as a Result of the Pendency of the Bad Faith Litigation*

The jury awarded Handgards lost profits as a result of the pendency of the bad faith litigation from 1964 to 1973. To justify such an award, Handgards had presented evidence to support all six factors of "antitrust standing" required by *Associated General Contractors.*[19] Ethicon directly attacks the jury's finding that the lost profits injury was of a type that Congress sought to redress with the antitrust laws. It presents three arguments to support its contention that no antitrust injury exists.

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19 Handgards introduced evidence of (1) Ethicon's prosecution of the Gerard patent suit and its effect of excluding Handgards from the relevant market; (2) Ethicon's bad faith; (3) the anticompetitive effect of Ethicon's conduct and its "antitrust injury"; (4) the direct impact of the bad faith patent infringement suit; (5) damages supported by schedules and expert testimony; and (6) an appropriate damages apportionment to exclude the effect of the valid Orsini patent when necessary.

First, Ethicon argues that its license offers to Handgards on both the Gerard and Orsini patents preclude a finding of antitrust injury. *See La Salle Street Press, Inc. v. McCormick and Henderson, Inc.*, 445 F.2d 84, 95-96 (7th Cir. 1971). In *LaSalle*, however, the trial court had made an explicit finding that the patent infringement action was brought in good faith. *Id.* at 96. Thus, efforts to settle through the sale of a license precluded a counterclaim for antitrust injury. Here, Ethicon brought a bad faith infringement suit. Any offer to license a patent that it knew was invalid cannot preclude a finding of antitrust injury as a matter of law. As noted before, the license offers were admissible to prove good faith on Ethicon's part for the purpose of determining intent to monopolize. *See supra* note 15. Apparently, the jury chose either not to believe the evidence as to the specific terms of the license offer or to give it the weight sought by Ethicon. Ethicon's attempt to argue the so-called doctrine of avoidable consequences[20] should have been directed toward reducing the amount of damages not the existence of an antitrust injury.[21]

Second, Ethicon argues that Handgards' alleged lost profits are attributable to the entry of additional competition, not an antitrust injury. *See Brunswick Corp. v. Pueblo Bowl-O-Mat, Inc.*, 429 U.S. 477 (1977). To have earned the alleged profits, it contends that Handgards would have had to exclude two subsequent competitors, Poly-Version and Clairol, from the relevant market. We disagree. The district judge explicitly instructed the jury that Handgards could not recover for losses resulting from an increase in competition. Also, as Handgards points out, Poly-Version did not become a viable competitor until 1971 when it entered into a joint venture with Clairol. Handgards does not seek Poly-Version's profits from the joint

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20 Under that doctrine, Ethicon argues that had Handgards accepted its licenses, it would have prevented the antitrust injury. *See supra* note 15.

21 Ethicon also argues that Handgards abandoned its sales to the hair care market as a business decision after the Gerard patent was invalidated. Handgards vigorously countered this argument. We believe that the jury's resolution of this factual dispute is supported by the evidence.

venture. It only looks to these profits as a rational method of calculating profits Handgards would have received had Ethicon not stopped its efforts to form a joint venture in 1965 and 1968. Aside from the lost joint venture business, Handgards presented evidence that the Gerard patent suit impaired significantly its ability to raise capital to remain "technologically competitive" and Ethicon's letter to Handgards' potential customers frightened many of them away.

Ethicon's conduct not only damaged Handgards but it also had an anticompetitive effect. *See California Computer Products, Inc. v. International Business Machines Corp.*, 613 F.2d 727, 732 (9th Cir. 1979). The bad faith suit not only excluded Ethicon's only significant competitor, Handgards, it also checked possible future competitors until the Gerard patent had been declared invalid. Although subsequent to that date several competitors entered the market, that did not alleviate the harm to competition that resulted from the prosecution of a suit for a patent that was known to be invalid. We conclude, therefore, that Handgards' lost profits injury meets the *Brunswick* test: "Plaintiffs must prove *antitrust* injury, which is to say injury of the type the antitrust laws were intended to prevent and that flows from that which makes the defendants' acts unlawful." 429 U.S. at 489 (emphasis in original).[22]

Finally, Ethicon argues that the injury caused by the Orsini patent is not antitrust injury. We agree. However, this does not help Ethicon. There is no showing that Handgards' lost profits are attributable to the Orsini patent. Ethicon did not attempt to prove that the Orsini patent caused any of the damages.[23]

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22 In *Handgards I*, 601 F.2d at 997, we questioned the trial court's charge concerning the damages available to the plaintiff for lost profits. Our review of the jury instructions in the second trial leads us to conclude that the district court properly interpreted *Brunswick* in the context of lost profits.

23 Ethicon argues that Handgards' resubmission of the identical damage schedule proves that the damages caused by the Orsini and Gerard patents are identical. This argument is based on the fact that in the first antitrust trial Handgards claimed that the Orsini patent was also invalid. We disagree. In the first trial Judge Orrick required that Handgards request a declaration of invalidity of the Orsini patent. After the jury's finding that the

The evidence was to the contrary. Ethicon based its patent infringement suit against Handgards solely on the Gerard patent. The Ethicon letters to Handgards' potential customers also explicitly mentioned only the Gerard patent. Furthermore, Handgards introduced evidence that customers refused to deal with it because of Ethicon's Gerard patent suit. The jury's verdict must be sustained.

B. *The Legal Expenses, Attorneys' Fees, and Costs Incurred in Defending the Gerard Patent Infringement Litigation*

Ethicon does not challenge the jury's award of damages for the costs incurred to defend its Gerard patent suit. This is because in *Handgards I*, 601 F.2d at 997, we found that "[i]n a suit alleging antitrust injury based upon a bad faith prosecution theory it is obvious that the costs incurred in defense of the prior patent infringement suit are an injury which 'flows' from the antitrust wrong." We do not believe this conclusion is affected by the antitrust standing principles enunciated in *Associated General Contractors*, 103 S. Ct. at 908-12.

VI.

DAMAGE AWARD PROPERLY SUPPORTED BY EVIDENCE

Ethicon argues that Handgards' damage schedules are insufficient as a matter of law. We disagree. Once the fact of antitrust injury is proven, we have traditionally required a lesser quantum of proof to support the amount of damages. *See Blanton v. Mobil Oil Corp.*, 721 F.2d 1207, 1215-16 (9th Cir. 1983), *cert. pending*, 53 U.S.L.W. 3022 (1984). An antitrust plaintiff must simply provide evidence to support a " 'just and reasonable estimate of the damage.' " *Pacific Coast Agricultural Export Assoc. v. Sunkist Growers, Inc.*, 526 F.2d 1196, 1207 (9th Cir. 1975) (quoting *Bigelow v. RKO Radio*

Orsini patent was not invalid, he found that the Orsini patent was irrelevant to the injury caused by the Gerard patent litigation. We agree. Thus, Handgards' use of the same damages schedule was proper.

Pictures, Inc., 327 U.S. 251, 264 (1946)), *cert. denied*, 425 U.S. 959 (1976). A jury's finding of the amount of damages must be upheld unless the amount is "grossly excessive or monstrous," clearly not supported by the evidence, or "only based on speculation or guesswork." *Blanton*, 721 F.2d at 1216 (citations omitted). In this case Ethicon has failed to demonstrate such error in the jury's damage verdict.

A. *Damages for Lost Profits*

At trial, Handgards presented evidence to support its claim that it lost $3,297,122 in profits between 1964 and 1973 as a result of Ethicon's conduct. The jury awarded the entire amount to Handgards. On appeal, Ethicon advances four contentions challenging the proof of damages as insufficient as a matter of law. First, Handgards failed to allocate lost profit damages attributable to the valid Orsini patent. Second, the damage schedules assumed an unsupported fifty percent market share for Handgards. Third, Handgards used an unsupported thirty-five to forty percent profit margin to compute its lost profits. Finally, the 1964 to 1973 period chosen for lost profits was arbitrary.

Each of these contentions was presented to and rejected by the jury. In light of the liberal proof of damages standard in antitrust cases, Ethicon does not demonstrate an error that would take the jury's verdict out of the range of a "just and reasonable estimate of the damages." Ethicon's strategic decision not to provide an alternative and tangible basis for calculating damages undoubtedly weakened its position. On appeal, we cannot speculate whether such an alternative schedule might have been more reasonable under the circumstances. *Cf. D & S Redi-Mix v. Sierra Redi-Mix and Contracting Co.*, 692 F.2d 1245, 1249 (9th Cir. 1982); *Moore v. Jas. H. Matthews & Co.*, 682 F. 2d 830, 836-37 (9th Cir. 1982).

B. *Damages for Costs Incurred in Defending the Gerard Patent Suit*

Handgards presented evidence that it expended $225,000 in attorneys' fees and $85,000 in executive time to defend against

the Gerard patent infringement suit from 1962 to 1971. The attorneys' fees amount, however, included money spent to defend against both the Gerard and the Orsini patents. Because Ethicon eventually prevailed on the Orsini patent, the district court properly instructed the jury to award only the amount related to the Gerard patent defense. Handgards revised its attorneys' fees damage claim to $205,000 and the entire amount was awarded by the jury. On appeal, Ethicon argues that the amount allocated to the Gerard patent was unsupported by the evidence. We disagree.

It is true that Handgards only presented recently prepared schedules of the attorneys' fees to show that it had expended $20,000 of $225,000 on the Orsini patent issue. It did so because the actual time sheets were accidently destroyed by the patent counsel's widow. Ethicon argues that the destruction of the best evidence along with Handgards counsel's prior statements charging $180,000 to the Orsini patent require the district court to dismiss the damages claim. Handgards responded by alleging that its current estimates were based on previously prepared monthly statements. It was only the daily time sheets that were destroyed. And, it acknowledged that its new antitrust counsel, who was unfamiliar with the case, made prior estimates that were unfounded. To support its figures, Handgards argued that the Orsini patent issue was dropped before it got to the discovery stage during the patent litigation.

The district court viewed Ethicon's objection at trial as an attack only on the reliability of Handgards' evidence, not its admissibility. Therefore, the jury was instructed to weigh both Ethicon and Handgards' estimates to arrive at the proper figure. We believe that this approach was proper. Courts faced with similar issues have normally left the effect of the destruction up to the jury. *McCormick's Handbook on the Law of Evidence* § 273, at 661 (E. Cleary 2d ed. 1972). *See generally* Oesterle, *A Private Litigant's Remedies for an Opponent's Inappropriate Destruction of Relevant Documents*, 61 Texas L. Rev. 1185, 1221-39 (1983) (discussing sanctions imposed during affected litigation). Thus, we affirm the jury's verdict of damages awarded for defense of the Gerard patent suit.

VII.

POST-JUDGEMENT INTEREST

Relying on 28 U.S.C. § 1961 (1982), the district court awarded interest to Handgards on the amount of the first judgment from its date of entry in 1976. *See Handgards II*, 552 F. Supp. at 821-22. On appeal, Ethicon argues that post-judgement interest should apply only from the date of the second judgement whenever the first judgement is reversed and remanded. We disagree. Under a de novo standard of review,[24] we affirm the district court's award of post-judgement interest.

The district court relied on *Mt. Hood Stages, Inc. v. The Greyhound Corp.*, 616 F.2d 394, 406 (9th Cir.), *cert. denied*, 449 U.S. 831 (1980), and *Twin City Sportservice, Inc. v. Charles O. Finley & Co.*, 676 F.2d 1291, 1310 (9th Cir.), *cert. denied*, 459 U.S. 1009 (1982), to support its post-judgement interest award. *See Handgards II*, 552 F. Supp. at 821.[25] Under *Mt. Hood Stages* and *Twin City Sportservice*, a district court must award interest for the original vacated judgement even when "the issue of antitrust liability was not firmly settled until the post-remand judgements, both of which were entered after additional factual inquiry. In both cases [*Mt. Hood Stages* and

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24 Our standard of review is de novo because this issue requires an interpretation of the "date of the entry of the judgment" under 28 U.S.C. § 1961 (1982). *See Twin City Sportservice, Inc. v. Charles O. Finley & Co.*, 676 F.2d 1291, 1310 (9th Cir.), *cert. denied*, 459 U.S. 1009 (1982).

25 The district court's policy analysis appears to adopt a mandatory award of interest from the first judgment in all cases:

> A plaintiff's right to post-judgment interest should not hinge on the fortuity that on remand the finder of fact will award the *exact* amount of damages awarded at the first trial. Furthermore, if interest is not allowed on the first judgment from the date of its entry simply because the first and second judgments are not for the same amount, then a successful plaintiff could be penalized for receiving a second judgment larger than the first judgment.

Handgards II, 552 F. Supp. at 822 (emphasis in original). We do not believe this analysis properly articulates the test for post-judgment interest when the second judgment is larger than the first.

Twin City Sportservice], it can be said that the second judgment 'remains the same—in the same amount, for the same damages incurred during the same period.' " *Twin City Sportservice*, 676 F.2d at 1311 (citing *Mt. Hood Stages*, 616 F.2d at 407). Accordingly, we reject the assertion that under the circumstances of this case the first judgment cannot establish the date of liability.[26]

Ethicon is on somewhat more solid ground when it contends that no post-judgment interest is available because upon remand, the jury returned a larger verdict that that awarded in the first trial.[27] Dicta in a recent Ninth Circuit decision supports Ethicon's argument:

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26 To support its argument, Ethicon relies on *Ashland Oil, Inc., v. Phillips Petroleum Co.*, 607 F.2d 335, 336 (10th Cir. 1979) (holding that interest allowed only from date of second judgment when new award of damages based on "additional facts" determined on remand), *cert. denied*, 446 U.S. 936 (1980), and *Hysell v. Iowa Public Service Co.*, 559 F.2d 468, 476-77 (8th Cir. 1977) (holding that interest allowed only from date of second judgment when first judgment vacated on appeal). Although these cases were cited in dicta by this court in *Turner v. Japan Lines, Ltd.*, 702 F.2d 752, 754 (9th Cir. 1983), an earlier Ninth Circuit case had expressly disapproved of their reasoning to the extent it varied with this circuit's precedent. *See Mt. Hood Stages, Inc. v. The Greyhound Corp.*, 616 F.2d 394, 407 (9th Cir.), *cert. denied*, 449 U.S. 831 (1980). To hold *Ashland Oil* and *Hysell* applicable here would overrule *Mt. Hood Stages* and *Lew Wenzel & Co. v. London Litho Supply Co., Inc.*, 563 F.2d 1367 (9th Cir. 1977). *Japan Lines'* attempt to reconcile post-judgment interest law in all of the circuits cannot be viewed as overruling this circuit's prior precedent.

27 Ethicon cites *United States v. Hougham*, 301 F.2d 133, 134-35 (9th Cir. 1962) to support its argument. In *Hougham* the plaintiff sought post-judgment interest on the additional damages awarded in the second judgment from the date of entry of the first judgment. We held that "post-judgment interest should be calculated from the date of the entry of the judgment in which the money damages, upon which interest is to be computed, were in fact awarded." *Id.* at 135. Because the additional damages were actually awarded in the second judgment, interest could not be calculated from the date of entry of the first judgment. However, *Hougham* did not address the question whether interest from the entry of the first judgment is available to the extent of the original amount when the second judgment is higher. *Cf. Turner v. Japan Lines, Ltd.*, 702 F.2d 752, 755 n.3 (9th Cir. 1983).

(footnote continued)

> Of course, in those cases where an earlier judgment in favor of plaintiff is vacated on appeal and a new verdict or decision for plaintiff is rendered in the district court on remand, interest under section 1961 should properly run only from the date of entry of the new judgment and not from that of the old judgment since the new verdict or decision presumably will include the value of loss of use of the money judgment from the date of loss up to the date of the new verdict on remand.

Turner v. Japan Lines, Ltd., 702 F.2d 752, 757 n.7 (9th Cir. 1983). We decline to interpret *Japan Lines*' dicta as an attempt to formulate a general rule for all cases. Such an interpretation would be inconsistent with the reasoning supporting *Japan Lines'* holding and result.

Interest compensates an injured party "for the deprivation of the monetary value of his loss from the time of the loss to the payment of a money judgment." Comment, *Interest on Judgments in the Federal Courts*, 64 Yale L.J. 1019, 1019 (1955). Normally, there are two components of the total interest amount. The first component is the interest from the date of the loss to the date of the judgment. This element can be viewed as either interest or damages. It is generally awarded as prejudgment interest or a portion of the continuing damages up to the time of the judgment.[28] The second component is the

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Ethicon also relies on cases that have narrowly interpreted section 1961's "entry of the judgment" language. *See, e.g., Harris v. Chicago Great Western Railway Co.*, 197 F.2d 829, 836 (7th Cir. 1952); *Powers v. New York Central Railroad Co.*, 251 F.2d 813, 818 (2d Cir. 1958). This court in *Japan Lines* expressly rejected these cases and instead adopted the Fifth Circuit's "equitable" construction of section 1961. *See* 702 F.2d at 754-55.

28 Prejudgment interest is usually provided by statute for liquidated claims from the date the claim becomes due until the entry of judgment. For example, if a contract provides for liquidated damages, in most states the injured party can collect the liquidated sum and an amount for interest from the date of breach to the date of judgment. In direct contrast unliquidated claims typically reflect prejudgment interest only by way of damages that continue to accrue until the date of judgment. For example, the amount of tort damages for emotional distress is fixed at the time of judgment. Any

interest from the date of judgment to the date that the damages are actually paid. This amount is awarded as post-judgment interest under 28 U.S.C. § 1961 (1982). When there are two judgments for a plaintiff, interest from the date of, and on the amount of, the first judgment also can be viewed as either interest or damages. If the second judgment includes as damages such an amount, post-judgment interest on the amount of the first judgment is not recoverable. It has already been accounted for as damages. Where, however, it has not been included in damages, it can be recovered as post-judgment interest. Thus, we must carefully examine the damages sought in the second trial.

During the second trial, Handgards alleged two sources of damages: the legal expenses, attorneys' fees, and costs incurred for the defense of the bad faith patent suit and lost profits resulting from Ethicon's conduct. The time period during which these damages were incurred ended prior to the start of the first trial; therefore, the second jury verdict could not include any element of damages for any conduct between the first and the second judgment. Also, our review of the record has not uncovered evidence or a jury instruction that would support the jury's consideration of the time value of money between the first and second judgments. We can only assume that no part of the additional award included in the second judgment is attributable to post-judgment interest. Thus, Handgards is entitled to "post-first-judgment" interest on the amount of the first judgment from the date of its entry to the date of its payment.

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award for the loss of the use of money is presumably reflected in the judgment. Because the amount of damages is not fixed until judgment, it is usually not possible to calculate formally prejudgment interest.

In this case Handgards had an unliquidated antitrust claim that was not fixed in amount until the first judgment. Once it was fixed, Handgards was entitled to interest on the amount originally determined from the first judgment to the extent it was affirmed by the second judgment.

VIII.

CONCLUSION

Our review of the record leads us to conclude that the district court properly adhered to our decision in *Handgards I*. Ethicon's arguments on appeal primarily are an attack on the verdict of the jury. As we have noted many times, "Neither the district court nor this court is free to weigh the evidence or reach a result that it finds more reasonable as long as the jury's verdict is supported by substantial evidence." *William Inglis & Sons Baking Co. v. ITT Continental Baking Co., Inc.*, 668 F.2d 1014, 1026 (9th Cir. 1981), *cert. denied*, 459 U.S. 825 (1982). The verdict is supported by substantial evidence. Thus, we affirm the entirety of the antitrust verdict against Ethicon. In addition to the district court's award, Handgards is entitled to its costs and reasonable attorneys' fees for this appeal.

AFFIRMED.

UNITED STATES COURT OF APPEALS
FOR THE NINTH CIRCUIT

Nos. 83-1575, 83-1646

DC CV 49491 SAW

HANDGARDS, INC., a corporation,
Plaintiff-Appellee,

vs.

ETHICON, INC., a corporation,
Defendant-Appellant.

JUDGMENT

APPEAL from the United States District Court for the Northern District of California.

THIS CAUSE came on to be heard on the Transcript of the Record from the United States District Court for the Northern District of California and was duly submitted.

ON CONSIDERATION WHEREOF, It is now here ordered and adjudged by this Court, that the judgment of the said District Court in this Cause be, and hereby is affirmed.

A TRUE COPY
ATTEST SEP 6, 1984
PHILLIP B. WINBERRY
Clerk of Court

by: Eliza Lau
Deputy Clerk

Filed and entered: August 02, 1984

FILED
SEP 10 1984
WILLIAM L. WHITTAKER
CLERK, U.S. DISTRICT
NORTHERN DISTRICT OF CALIFORNIA

Appendix B

UNITED STATES COURT OF APPEALS
FOR THE NINTH CIRCUIT

No. 83-1575
No. 83-1646

HANDGARDS, INC., A CORPORATION,

Plaintiff-Appellee,

v.

ETHICON, INC., A CORPORATION,

Defendant-Appellant.

Before:

SNEED, KENNEDY, and BOOCHEVER,

Circuit Judges.

ORDER

We amend our opinion in this case as follows. The amendments correspond to the [pagination of Appendix A].

1. The third paragraph beginning with "Ethicon's argument also challenges" on page [10a] is replaced with the following:

> Ethicon argues that the jury should not have considered the defenses that were not litigated in the original patent suit.[10] We disagree. Ethicon's antitrust liability is premised upon its prosecution of a patent infringement suit with the knowledge that its patent was invalid. *Handgards*

I, 601 F.2d at 994. If Ethicon knew that the Gerard patent was invalid under any defense, it is irrelevant that the defense was not litigated in the patent infringement proceeding. All that is required for a finding of bad faith in the context of an infringement suit is that the patent holder, Ethicon, knew that its patent was invalid. The bad faith involved—attempting to enforce a government granted monopoly to which the patent holder knows he has no right—is as much extrinsic to the suit as it is inherent in filing a legal cause of action devoid of merit.

As Ethicon argues, liability cannot be based solely upon the fact that a valid, unlitigated defense existed to its patent infringement claim. Ethicon must also have known that its patent was invalid by reason of that defense. The district court must instruct the jury first on the law governing the various patent defenses. The court must then be careful to instruct the jury that it must find not only the existence of facts which created a valid defense to the patent claim but also that the antitrust defendant knew, during the course of the patent prosecution, that the patent was invalid by reason of that defense. Here, the district court did just this. The district court instructed the jury that first it had to determine the invalidity of the patent on the basis of a particular defense and only then could it determine whether Ethicon knew the patent was invalid on the basis of that defense. Under the facts presented by Ethicon, the Gerard patent could have been invalid under any one of or all of the defenses raised by Handgards in the antitrust trial. It was up to the jury to decide whether the factual predicates of a defense were present and whether Ethicon actually knew that the patent was invalid on the basis of the defense.

10. We refer to these defenses as "unlitigated defenses" or "unlitigated patent defenses."

2. The remainder of the . . . paragraph . . . on page [11a] after the *Goldman v. Fenn* citation is replaced with the following:

> The conduct alleged by Ethicon does not rise to the level of "unfairness" required by our prior cases. *See, e.g., Maheu v. Hughes Tool Co.*, 569 F.2d 459, 471-72 (9th Cir. 1978) (a trial is unfair when the judge expresses his opinion as to an ultimate issue of fact in front of a jury or argues for one of the parties in the suit). And, no evidence exists to support an inference that the trial judge affected the jury's inquiry into bad faith.

3. The *Telex* citation is removed from page [20a], footnote 17; the words "clearly erroneous" in the next sentence are deleted and replaced with the words "unsupported by substantial evidence."

4. The *McCormick* citation on page [27a] is updated as follows:

> *McCormick on Evidence* § 273, at 809-10 (E. Cleary 3d ed. 1984).*

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* The balance of the order, consisting of typographical corrections, is omitted.

Appendix C

UNITED STATES COURT OF APPEALS
NINTH CIRCUIT

No. 76-3150

May 3, 1979.

As Modified on Denial of Rehearing and
Rehearing En Banc July 27, 1979.

HANDGARDS, INC., a corporation,

Plaintiff-Appellee,

v.

ETHICON, INC., a corporation,

Defendant-Appellant.

Before

SNEED and KENNEDY, *Circuit Judges,*
and VON DER HEYDT,* *District Judge.*

SNEED, *Circuit Judge.*

Ethicon appeals from a judgment rendered after a civil jury trial in which it was found guilty of violating Section 2 of the Sherman Act by monopolizing or attempting to monopolize the market for heat-sealed plastic gloves sold to manufacturers

* Hon. James A. Von Der Heydt, Chief United States District Judge for the District of Alaska, sitting by designation.

of home hair care coloring kits. Plaintiff-appellee Handgards bases its private antitrust action upon its contention that Ethicon earlier had initiated and pursued a series of patent infringement suits against it in bad faith, or as an integral part of an overall scheme to monopolize. On appeal, Ethicon argues, *inter alia,* that the district court erred in instructing the jury that Ethicon could be found guilty of an antitrust violation upon proof by a mere preponderance of the evidence that it had prosecuted one or more ill-founded patent infringement actions in bad faith and with an intent to monopolize. This court has jurisdiction pursuant to 28 U.S.C. § 1291. Because we conclude that the district court erred in so instructing the jury and because of certain deficiencies with respect to the court's charge regarding damages, we reverse the judgment entered below and remand the case for a new trial.

I.

Factual Background

It is helpful to set forth a brief description of the patent enforcement conduct which forms the basis for Handgards' antitrust complaint before reviewing the history of the instant action.

A. *The Prior Patent Enforcement Conduct.*

The plaintiff-appellee Handgards, Inc. is a Nebraska corporation engaged in the business of manufacturing, distributing, and selling disposable plastic gloves adhered to paper. Handgards was formed from the 1966 merger of two constituent disposable plastic glove manufacturers: Plasticsmith, Inc. (Plasticsmith) and Mercury Manufacturing Company (Mercury). The defendant-appellant Ethicon, Inc. is a wholly-owned subsidiary of Johnson & Johnson and is engaged in the business of manufacturing, selling, and distributing surgical supplies. Prior to 1969, Ethicon manufactured, distributed, and sold disposable plastic gloves adhered to paper through its Arbrook division. Ethicon ended its participation in the dis-

posable plastic glove business in 1969, when the assets of its Arbrook division were transferred to another Johnson & Johnson subsidiary named Arbrook, Inc.

In 1961 Ethicon acquired the assets of the Scott Company, which, for several years, had marketed disposable plastic gloves produced in accordance with a process developed by one of its founders, Joe Gerard. In so doing, Ethicon acquired both Gerard's pending application for a patent on his glovemaking process, as well as his glovemaking equipment.[1] In 1961 Ethicon also acquired the pending patent application of one Rene Orsini.[2] On April 3, 1962, the Gerard patent covering a glovemaking process issued to Ethicon. On October 20, 1964, the Orsini product patent covering a heat-sealed glove issued to Ethicon.

Both Plasticsmith and Mercury were engaged in the manufacture of heat-sealed disposable plastic gloves at the time the Gerard patent issued in 1962. After several months of unproductive negotiations concerning a licensing agreement for the Gerard patent between Ethicon and T. Hamil Reidy, the chief executive officer and controlling shareholder of Plasticsmith and Mercury, Ethicon filed patent infringement suits in October 1962 against both Plasticsmith and Mercury, alleging infringement of the Gerard patent.[3] In December 1964, after the Orsini patent issued, Ethicon supplemented its patent infringement complaints against Plasticsmith and Mercury by adding a claim that the Orsini patent also was being infringed.

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1 Gerard filed the patent application covering his glovemaking process on January 2, 1958.

2 Orsini filed an application for a French patent on September 17, 1956; he filed for a United States patent on September 17, 1957.

3 Ethicon filed suit against Plasticsmith, a Delaware corporation, on October 30, 1962, in Delaware. Ethicon filed suit against Mercury, a Nebraska corporation, on October 31, 1962, in Nebraska. After attorneys for Plasticsmith prevailed on a motion to transfer the Delaware action to the Northern District of California, Ethicon's attorneys consented to the transfer and consolidation of the Mercury action with the Plasticsmith action.

In 1966 Plasticsmith and Mercury were merged into a successor corporation, Handgards, Inc., the plaintiff in this case. Reidy continued as the chief executive officer and controlling shareholder in Handgards. In 1967, after learning that some of the allegedly infringing machines operated by Handgards reportedly were owned by Reidy rather than by Handgards or either of its predecessor corporations, Ethicon filed an infringement action against Reidy individually at his Chicago, Illinois residence. Reidy thereafter voluntarily intervened in the consolidated action then pending in California.

The consolidated patent infringement suit was tried to the court in 1968. Ethicon's trial counsel dropped the claims concerning the Orsini patent from the action, reportedly because he thought Orsini to be the weaker of the two patents and because he believed that narrowing the issues before the court would enhance the chance of successfully prosecuting the Gerard patent. On April 25, 1968, the trial judge entered judgment for Handgards, concluding that the Gerard patent was invalid because of the existence of a "prior public use" of the process by Lyle Shabram, one of the founders of Plasticsmith.[4] On appeal, this court affirmed the district court in a brief per curiam decision.[5]

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4 The "prior public use" defense arises under 35 U.S.C. § 102(b), which provides that:

> A person shall be entitled to a patent unless—
>
> * * * * *
>
> (b) the invention was patented or described in a printed publication in this or a foreign country or in public use or on sale in this country, more than one year prior to the date of the application for patent in the United States.

5 *Ethicon, Inc. v. Handgards, Inc.*, 432 F.2d 438 (9th Cir. 1970), *cert. denied*, 402 U.S. 929, 91 S. Ct. 1525, 28 L.Ed.2d 863, *rehearing denied*, 403 U.S. 912, 91 S.Ct. 2204, 29 L.Ed.2d 690 (1971). The complete text of the court's decision reads as follows:

> Ethicon's Gerard patent No. 3,028,576 was held invalid because the trial court found that under 35 U.S.C. § 102(b) there was prior public use for more than one year of the concept of the machine, the subject of the patent.

(footnote continued)

B. *History of the Present Action*

Plaintiff-appellee Handgards filed this civil antitrust action in 1968 seeking to recover treble damages and other equitable relief for the injuries it claimed to its business and property by virtue of the alleged antitrust violations committed by defendant-appellant Ethicon and defendant Johnson & Johnson. The gist of the plaintiff's complaint was that the parent-subsidiary defendants had either unilaterally or in concert, monopolized, attempted to monopolize, and conspired to monopolize trade and commerce for the purpose of eliminating plaintiff as a competitor in the sale of disposable plastic gloves to the hair care and medical markets.

Plaintiff altered its primary theory of recovery dramatically during the eight year period between the time it commenced this action and the time of trial in 1976. Handgards' suit began primarily as a *Walker Process* case, i.e., a suit alleging antitrust liability for the enforcement of a fraudulently obtained patent (Orsini).[6] See *Walker Process Equipment, Inc. v. Food Ma-*

There is little or no direct contradiction in the oral evidence. In our view, we have a case that could have been decided either way. Ethicon contends the testimony of Handgards' principal was too weak and impaired by certain circumstances. But the trial court was entitled to give more weight to other circumstances which point to Handgards' version being correct.

The decree is affirmed because the findings are not clearly erroneous.

6 *Walker Process* stands for the proposition that "the enforcement of a patent procured by fraud on the Patent Office may be violative of § 2 of the Sherman Act provided the other elements necessary to a § 2 case are present." 382 U.S. at 174, 86 S.Ct. at 349. Mr. Justice Harlan, concurring, stressed that "deliberate fraud" was required and that the Court did not hold

> that private antitrust suits might also reach monopolies practiced under patents that for one reason or another may turn out to be voidable under one or more of the numerous technicalities attending the issuance of a patent [for such a result] might well chill the disclosure of inventions through the obtaining of a patent because of fear of the vexations or punitive consequences of treble-damage suits.

382 U.S. at 180, 86 S.Ct. at 351-352 (Harlan, J., concurring).

(footnote continued)

chinery & Chemical Corp., 382 U.S. 172, 86 S.Ct. 347, 15 L.Ed.2d 247 (1965). This theory ultimately proved not viable.[7] In 1975 Handgards expressly abandoned the *Walker Process* theory at a hearing on a motion for summary judgment and instead asserted the two theories on which this case ultimately was tried: the first was referred to at trial as the "overall scheme" theory; the second was referred to as the "bad faith" theory. The district court's published opinion on the motion

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Handgards' original complaint charged the defendants with (i) a violation of section 7 of the Clayton Act, allegedly occurring when Ethicon acquired the assets of the Scott Company in 1961 and (ii) violations of the Sherman Act, allegedly occurring as the result of a fraudulent procurement of the Orsini patent. A supplemental complaint was filed in 1974 which also charged that the defendants had continued to violate the antitrust laws since the date of the original complaint by committing certain illegal acts such as the instigation of baseless lawsuits and pricecutting. Neither complaint charged Ethicon with fraudulent procurement of the Gerard patent. Although plaintiff sought to add such a contention in 1974, the district court had denied leave to amend the complaint. The only allegations in either complaint pertaining to the invalidity of the Gerard patent were that the Gerard patent had been found invalid on the basis of a prior public use and that "[d]uring the pendency of such action, defendants obtained additional information showing and confirming the invalidity of the Gerard patent."

7 In 1971 Ethicon filed a motion for summary judgment, arguing that the undisputed facts precluded a finding that the Orsini product patent had been fraudulently procured under the criteria set out in *Walker Process*, *supra*. *See* note 6 *supra*. The district court denied defendant's motion in 1972 pending completion of discovery in the case, but noted that "[a] ruling that no triable issue of fraud in the procurement of the Orsini divisional patent exists would be within . . . [its] sound discretion." Ethicon renewed its motion for summary judgment in 1975, at which time the district court granted the motion in part and denied it in part. *Handgards, Inc. v. Johnson & Johnson*, 413 F.Supp. 921 (N.D. Cal. 1975). The district court's opinion on the motion for summary judgment noted the death of any *Walker Process* allegations, stating that "Handgards represented at oral argument on the motion and in its post-hearing reply memorandum that it was not proceeding as though this case were governed by *Walker Process Equipment, Inc. v. Food Machinery & Chemical Corp.*," that the "abandonment by plaintiff of its primary theory of recovery based on the Orsini patent is no surprise," that the "Orsini patent infringement suit was not prosecuted in violation of *Walker Process*," and that plaintiff's complaint had never contained a *Walker Process* allegation regarding the Gerard patent. 413 F.Supp. at 923.

for summary judgment reflected the new orientation of plaintiff's case. *Handgards, Inc. v. Johnson & Johnson*, 413 F.Supp. 921 (N.D. Cal. 1975).

> [1] Handgards now largely bases its monopolization charge on the various patent infringement and other lawsuits brought on behalf of Ethicon by J & J house patent counsel. The claim is rooted in *Kobe, Inc. v. Dempsey Pump Co.*, 198 F.2d 416 (10th Cir. 1952), *cert. denied*, 344 U.S. 837, 73 S.Ct. 46, 97 L.Ed. 651 (1952), and its progeny—particularly *Mach-Tronics, Incorporated v. Zirpoli*, 316 F.2d 820 (9th Cir. 1963), *Rex Chainbelt, Inc. v. Harco Products, Inc.*, 512 F.2d 993 (9th Cir. 1975), and *Prelin Industries, Inc. v. G & G Crafts, Inc.*, 357 F.Supp. 52 (W.D. Okl. 1972). The Ethicon suits were purportedly brought as integral ingredients of a scheme to monopolize the disposable glove market. . . .
>
> * * * * *
>
> [2] Plaintiff charges that defendants attempted to create a monopoly in the disposable glove industry by accumulating a number of the relevant patents—no matter how weak or narrow—and then instigating a series of lawsuits in order to slowly litigate the competition out of business.
>
> * * * * *
>
> The bringing of a series of ill-founded patent infringement actions, in bad faith, can constitute an antitrust violation in and of itself if such suits are initiated or pursued with an intent to monopolize a particular industry (and, of course, the other elements of a Section 2 violation are present). *Otter Tail Power Co. v. United States*, 410 U.S. 366, 93 S.Ct. 1022, 35 L.Ed.2d 359 (1973); *California Motor Transport Co. v. Trucking Unlimited*, 404 U.S. 508, 92 S.Ct. 609, 30 L.Ed.2d 642 (1972); *Kellogg Co. v. National Biscuit Co.*, 71 F.2d 662, 666 (2d Cir. 1934); *Bolt Associates, Inc. v. Rix Industries, supra*, [1973-1 Trade Cases ¶ 74,474 (N.D. Cal. 1973)].

413 F.Supp. at 923-25 (emphasis in original).

The court defined the term "bad faith" in this context as knowing that the particular patent was invalid because (i) Ethicon allegedly knew (through its agent Gerard) of relevant prior art existing more than a year before the filing of the Gerard patent application; (ii) Ethicon allegedly knew (through its agent Gerard) that the invention had been on sale more than a year prior to the filing of the Gerard patent application; or (iii) Ethicon allegedly knew that the Orsini patent was invalid because material information had been withheld from the patent examiner.[8] *Id.* at 925.

At the trial the parties presented dramatically different versions of the facts to the jury. Plaintiff contended that Ethicon had accumulated the Orsini and Gerard patents, two key patents in the field, intending to monopolize the industry; that Ethicon had initiated and pursued its patent infringement suits against Handgards and its predecessors in bad faith, i.e., with knowledge that the patents were invalid, for the purpose of monopolizing the market;[9] that even if brought in good

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8 In its 1972 decision on defendant's motion for summary judgment, *see* note 7 *supra*, the district court noted that the failure to supply the Patent Office with the information pertaining to the Orsini patent, which already allegedly was part of its files, did not constitute fraud on the Patent Office in the Walker Process sense. In its 1975 decision on defendant's motion for summary judgment, the district court formally held that Ethicon's "failure to inform the Patent Office of information in its own files does not amount to the extremely circumscribed 'intentional fraud' necessary to prove an action under Walker Process." 413 F.Supp. at 923.

9 Plaintiffs argued that the Gerard and Orsini patents were known by Ethicon to be invalid because they claimed: (1) a Mr. Babb had testified that Gerard had told him that he knew the Gerard patent was invalid; (2) evidence had been introduced suggesting that Ethicon knew of Shabram's invalidating prior public use; (3) evidence had been introduced suggesting (a) that Ethicon knew that Gerard's invention had been "on sale" more than one year prior to the date of the filing of the patent application within the meaning of 35 U.S.C. § 102(b) and (b) that Ethicon's patent attorneys knowingly falsified an answer to an interrogatory in the prior patent action regarding the "on sale" issue; (4) evidence had been introduced suggesting that Ethicon's patent attorneys knowingly falsified an answer to an interrogatory in the prior patent action concerning the date on which Gerard's invention had been

faith, Ethicon's infringement suits constituted individual predatory acts in an overall scheme to monopolize; and that Ethicon had generated adverse publicity regarding its infringement actions, threatening potential customers of the plaintiff, with the result that vital corporate resources were committed to defense of the infringement actions, Handgards' relations with potential customers were impaired, a proposed joint venture was aborted, and the company found itself unable to obtain outside financing necessary for it to remain competitive in the industry. Defendant Ethicon countered by arguing that it lacked any improper monopolistic motive in its acquisition of the Gerard and Orsini patents; that it had initiated the various infringement actions in complete good faith, after careful investigation, and with the reasonable expectation of success; that it did not publicize its infringement actions within the industry; and that Handgards' competitive problems resulted from its having marketed a lower quality product, provided poorer service, and been unwilling to respond to the competitive demands of the industry.

The jury returned a general verdict in favor of Handgards in the amount of $2,073,000 prior to trebling and gave the following responses to the special interrogatories submitted in the case: (1) the Orsini patent was not invalid on the basis of prior disclosures of another patent; (2) the relevant market in the case consisted of the market of heat-sealed plastic gloves sold to manufacturers of home hair care coloring kits; (3) Ethicon was guilty of monopolizing or attempting to monopolize the relevant market by prosecuting the patent lawsuits against Handgards and its predecessors in bad faith, that is, with actual knowledge that either the Gerard or the Orsini patent was invalid; (4) Ethicon was guilty of monopolizing or attempting to monopolize the relevant market by prosecuting

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reduced to a practice, in an attempt to mislead Handgards' counsel into defending the suit on a more difficult ground; and (5) evidence had been introduced suggesting that Ethicon knew the Orsini patent to have been invalid because of its having been anticipated or made obvious by a prior patent.

the prior patent action as a predatory act in an overall scheme designed to exclude Handgards from the market; and (5) & (6) Ethicon and Johnson & Johnson were not guilty of entering into an agreement, combination, or conspiracy to restrain trade or to monopolize the relevant market.

Ethicon advances six basic arguments on appeal: (1) the trial court erred in instructing the jury that the bad faith enforcement of a patent can, without more, constitute an exclusionary act for which antitrust liability may result; (2) the finding that Ethicon prosecuted its infringement actions in bad faith is based upon pure speculation; (3) the jury's finding that Ethicon possessed a valid patent (Orsini) which covered the market found to have been monopolized precludes entry of a verdict of illegal monopolization of that market; (4) the trial court erred in permitting the jury to determine the relevant market and instead should have found that the relevant market was broader than the one chosen by the jury; (5) Handgards failed to show any injury resulting from the alleged section 2 violations by Ethicon; and (6) the trial court erred in directing a verdict against Ethicon on its antitrust counterclaim against Handgards. Because we conclude that resolution of appellant's contentions concerning the bad faith theory and the damages recoverable in a case of this sort necessitate reversal and remand for a new trial, we need not, at this time, reach the other issues urged by appellant. All such issues may be presented to the trial court for such reconsiderations as it deems proper in the light of this opinion.

II.

Antitrust Liability for Patent Enforcement Conduct

A. *The Problem*

We are confronted in this case with the complex interaction between two conflicting bodies of law: One, the patent law, is concerned with the creation and commercial exploitation of a statutory grant of monopoly power; the other, the antitrust

law, is concerned with proscribing various kinds of monopoly power.[10] Reconciling the interrelationship between the patent and antitrust laws has long been a topic of concern to court as well as to commentators. *See, e.g. Walker Process Equipment, Inc. v. Food Machinery & Chemical Corp.*, 382 U.S. 172, 86 S.Ct. 347, 15 L.Ed.2d 247 (1965); *Rex Chainbelt, Inc. v. Harco Products, Inc.*, 512 F.2d 993 (9th Cir.), *cert. denied,* 423 U.S. 831, 96 S.Ct. 52, 46 L.Ed.2d 49 (1975); *Kobe, Inc. v. Dempsey Pump Co.*, 198 F.2d 416 (10th Cir.), *cert. denied,* 344 U.S. 837, 73 S.Ct. 46, 97 L.Ed.2d 651 (1952); P. Areeda & D. Turner, *III Antitrust Law* ¶ 704a, at 114-15 (1978); L. Sullivan, *Handbook of the Law of Antitrust* § 181 (1977); and Stedman, *Patents and Antitrust—The Impact of Varying Legal Doc-*

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10 The power to exclude, which is the essence of every patent, is monopoly power. Hence, "[a]ny action to enforce a patent is in a very explicit sense 'exclusionary,' both in purpose and, if successful, in effect." L. Sullivan, *Handbook of the Law of Antitrust* § 181, at 522 (1977). *See* P. Areeda & D. Turner, *III Antitrust Law* ¶ 704a, at 114-15 (1978). The patent laws contemplate "broad criteria of patentability while lodging in the federal courts final authority to [determine patent validity]," *Blonder-Tongue Laboratories, Inc. v. University Foundation,* 402 U.S. 313, 332 91 S.Ct. 1434, 1444, 28 L.Ed. 2d 788 (1971); patentees invoke that authority by initiating infringement suits to enforce their patents. The antitrust laws on the other hand, proscribe certain types of exclusionary conduct that threaten or create monopoly power, including, in at least some situations, the use of vexatious litigation. *See, e.g. Otter Tail Power Co. v. United States,* 410 U.S. 366, 93 S.Ct. 1022, 35 L.Ed.2d 359, *on remand,* 360 F.Supp 451 (D. Minn. 1973), *aff'd mem.*, 417 U.S. 901, 94 S.Ct. 2594, 41 L.Ed.2d 207 (1974). It therefore is necessary to reach an accommodation between the patent and the antitrust laws whenever antitrust liability is premised on a finding regarding a patentee's intent to monopolize or its exercise of exclusionary power. To determine the existence of section 2 liability properly requires careful distinctions between lawful patent-related exclusionary conduct or intent and unlawful patent-related exclusionary conduct or intent; only unlawful patent-related exclusionary conduct or intent is evidence of an intent to monopolize or the exercise of exclusionary conduct within the meaning attributed to section 2. *See SCM Corp. v. Xerox Corp.* 463 F.Supp. 983 (D. Conn. 1978). The task then, is to "identify the point at which. . . [an attempt to enforce a patent], always exclusionary in . . . [the literal sense, . . . become[s] so intractable as to warrant its being called exclusionary in the sense relevant to the establishment of a Section 2 violation. . ." L. Sullivan, *supra,* § 181, at 522.

trines, 1973 Utah L.Rev. 588. This case presents yet another instance in which the boundaries of the patentantitrust interface must be determined.

Patentees must be permitted to test the validity of their patents in court through actions against alleged infringers. Their status as alleged possessors of a legal monopoly does not cause them to be pariahs before the law. *Eastern Railroad Presidents Conference v. Noerr Motor Freight,* 365 U.S. 127, 81 S.Ct. 523, 5 L.Ed.2d 464 (1961) and *United Mine Workers v. Pennington,* 381 U.S. 657, 85 S.Ct. 1585, 14 L.Ed. 626 (1965) require no less.[11] On the other hand, infringement actions initiated and conducted in bad faith contribute nothing to the furtherance of the policies of either the patent law or the antitrust law.[12] The district court was correct in holding, in effect, that such actions may constitute an attempt to monopolize violative of Section 2 of the antitrust laws.[13] "Bad faith,"

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11 It is worth emphasizing that the absence of an immunity does not create an antitrust offense. The fact that defendant's conduct is not immune from antitrust scrutiny does not satisfy the plaintiff's burden of proving the usual elements of an antitrust offense, including significant harm causally related to the conduct.

P. Areeda & D. Turner, *supra, I Antitrust Law* ¶ 204e2.

See California Motor Transport Co. v. Trucking Unlimited, 404 U.S. 508, 92 S.Ct. 609, 30 L.Ed.2d 642 (1972); *Otter Tail Power Co. v. United States,* 410 U.S. 366, 93 S.Ct. 1022, 35 L.Ed.2d 359, *on remand,* 360 F.Supp. 451 (D. Minn. 1973), *aff'd mem.,* 417 U.S. 901, 94 S.Ct. 2594, 41 L.Ed.2d 207 (1974); *Franchise Realty Interstate Corp. v. San Francisco Local Joint Executive Board of Culinary Workers,* 542 F.2d 1076 (9th Cir. 1976), *cert. denied,* 430 U.S. 940, 97 S.Ct. 1571, 51 L.Ed.2d 787 (1977).

12 Subjecting a potential rival or actual rival to. . . [the burden of defending an infringement suit] may weaken him or even dissuade him from beginning or continuing the rivalry with the monopolist-patentee—and perhaps without regard to the merits of the infringement claim.

P. Areeda & D. Turner, *supra, III Antitrust Law* ¶ 708, at 145. *See generally* L. Sullivan, *supra,* § 181; Stedman, *supra,* at 593-94.

13 An antitrust plaintiff pursuing a bad faith patent prosecution theory must still prove the other requisities of a § 2 offense. In *Walker Process* the Supreme Court emphasized the need to demonstrate the patentee's posses-

however, is a subjective state of mind the existence of which, while not susceptible to certain proof, easily can spring from suggestive and weakly corroborative circumstances.

The problem, as we see it, is to provide the means whereby the bad faith infringement action can be identified post hoc with a sufficiently high degree of certainty to make it highly improbable that the action in fact was brought in good faith. The imposition of treble damages, a sanction strongly punitive, *see Walker Process, supra,* 382 U.S. at 180, 86 S.Ct. 347 (Harlan, J., concurring) and P. Areeda & D. Turner, *supra, II Antitrust Law* ¶¶ 311, 331, dictates that such means exist. For reasons which appear below the solution of this problem points the way to the proper disposition of this case.

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sion of exclusionary power with in the relevant market before antitrust liability would result.

To establish monopolization or attempt to monopolize a part of trade or commerce under § 2 of the Sherman Act [on a *Walker Process* theory], it would . . . be necessary to appraise the exclusionary power of the illegal patent claim in terms of the relevant market for the product involved. Without a definition of that market there is no way to measure. . . [defendant's] ability to lessen or destroy competition. It may be that the [patented] device . . . does not comprise a relevant market. There may be effective substitutes for the device which do not infringe the patent. This is a matter of proof, as is the amount of damages. . .

382 U.S. at 177-78, 86 S.Ct. at 350-51.

We note the existence of a jury finding in this case that the relevant market consisted of the market of heat-sealed plastic golves sold to manufacturers of home hair care coloring kits, or the home hair care plastic disposable glove market; a market coterminous with that covered by the Gerard patent. In view of that finding, Ethicon's prosecution of a bad faith infringement action likely would constitute an attempt to monopolize violative of section 2. The requisite intent to monopolize in this case could be inferred from the finding of bad faith. Not all bad faith infringement actions will necessarily constitute attempts to monopolize violative of section 2. Nor will a patentee found guilty of prosecuting an infringement action in bad faith necessarily be guilty of an offense of monopolization. The imposition of antitrust liability will depend upon plaintiff's proof that the defendant-patentee possessed or threatened to possess an ability to lessen competition in the relevant market.

B. *The Solution*

Our search for a solution commences by distinguishing the facts of this case from those of the cases on which appellee Handgards primarily relies. First, this is not a *Walker Process* case. *Walker Process* stands for the proposition that "the enforcement of a patent procured by fraud on the Patent Office" may give rise to antitrust liability. *See* notes 6 & 7 *supra*. Plaintiff Handgards does not contend that Ethicon sought to enforce a fraudulently-procured patent. Instead, Handgards asserts that Ethicon prosecuted infringement actions in bad faith, that is, with knowledge that the patents, though lawfully-obtained, were invalid.

Second, this is not a *Kobe* case. *Kobe, Inc. v. Dempsey Pump Co.*, 198 F.2d 416 (10th Cir.), *cert. denied*, 344 U.S. 837, 73 S.Ct. 46, 97 L.Ed.2d 651 (1952). In *Kobe* a patentee had engaged in a plan of monopolization by acquiring all present and future patents relevant to an industry, obtaining covenants not to compete from those from whom it purchased the patents, publicizing its infringement suits throughout the industry, and threatening suit against anyone trading with the alleged infringer. *Kobe* and its progeny, among which is *Rex Chainbelt, supra*, hold that a patentee may incur antitrust liability for even the good faith prosecution of a valid patent where it is shown that the infringement suit "was brought in furtherance and as an integral part of a plan to violate the antitrust laws." *Rex Chainbelt, supra*, 512 F.2d 1005-06.[14] Our

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14 The issue in *Rex Chainbelt* was whether Harco could recover attorneys' fees incurred in its successful defense of a patent infringement suit as damages resulting from an antitrust violation by Rex Chainbelt. After studying the *Report of the Attorney General's National Committee to Study the Antitrust Laws* 247-48 (1955) and a line of cases highlighted by *Kobe, supra* and *Ansul Co. v. Uniroyal, Inc.* 448 F.2d 872 (2d Cir. 1971), *cert. denied*, 404 U.S. 1018, 92 S.Ct. 680, 30 L.Ed.2d 666 (1972), we concluded that "[t]he mere coincidence of an antitrust violation [an illegal tying arrangement] and a patent infringement suit is not sufficient to entitle Harco to attorney's fees expended in defense of the patent infringement claim absent some showing from which the . . . court can find or infer, that *the patent infringement suit was brought in furtherance and as an integral part of a plan to violate the antitrust laws.*" 512 F.2d at 1005-06 (emphasis added).

careful examination of the record in this case reveals that no evidence of any overall scheme to monopolize exists *apart* from allegations that directly relate to the bad faith prosecution charges. The old wine in this case consists of evidence indicating that Ethicon may have brought the infringement actions in bad faith. It is the same old wine when put in a new bottle labelled "overall scheme."[15]

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15 The district court instructed the jury on both the "bad faith" and "overall scheme" theories, stating that "[the prosecution] of one or more ill-founded patent infringement actions in bad faith. . . constitutes an antitrust violation in and of itself if such suits are initiated or pursued with an intent to monopolize a particular market or industry," Reporter's Transcript at 2134, and that "if . . . the lawsuits instituted by Ethicon against plaintiff were brought or maintained in whole or in part to further a plan or a scheme. . . to monopolize . . . or in furtherance of a conspiracy or combination to monopolize or restrain trade . . . [then] the institution and maintenance of these suits violate the antitrust laws, even though the defendants may actually have believed that the . . . patents were valid, and even though the defendants may actually have believed that the . . . patents were valid, and even though the defendants believed that Handgards had infringed these patents." *Id.* at 2151. The court defined "bad faith" in this context as "knowing either at the time the lawsuit is filed or during its pendency that the particular patent s ed upon is invalid." *Id.* at 2134. Proof of bad faith, the court charged, must be shown by a preponderance of the evidence, which it described as proof that the proposition is "more likely true than not true." *Id.* at 2095.

The district court summarized the evidence pertaining to the overall scheme for the jury as follows:

> . . . [U]nder the overall scheme theory, the plaintiffs contend that the defendants accumulated numerous patents on plastic gloves to prevent competition; that they threatened to sue manufacturers, or purchasers, of allegedly infringing gloves, and misused the Gerard patent.
>
> To support this claim, the plaintiff introduced Gerard's letter to Sam Porter, claiming that anyone manufacturing gloves on paper was in violation of his patent, and was subject to suit for patent infringement.
>
> The plaintiff also presented the testimony of Mr. Webbe regarding the difficulty that Handgards encountered obtaining financing for its operations.
>
> Mr. Campbell, a past employee of Glore Forgan, also testified that his company would not become involved in underwriting the sale of Handgards' stock, because of the pendency of the infringement suit.
>
> Mr. Webbe also testified as to the reluctance of Sam Porter to enter into a joint venture because of the pending suit. And Porter, similarly, testified regarding his concern over the infringement action.

(footnote continued)

Finally, this is not an *Otter Tail* case. *Otter Tail Power Co. v. United States*, 410 U.S. 366, 93 S.Ct. 1022, 35 L.Ed.2d 359, *on*

The defendants presented the following evidence to refute the plaintiff's claim that the patent suits were brought as part of an overall scheme to monopolize.

Messrs. Laff and Neuman both testified that the patent actions were filed against Plasticsmith and Mercury Manufacturing because Ethicon was unsure of the relationship between the two companies.

Mr. Laff explained that Delaware was chosen as the place to sue, because it was more convenient for Ethicon; and that after the court ordered the case transferred to San Francisco, Ethicon did not oppose the consolidation of the lawsuit against Mercury, so the action could be tried as one lawsuit.

Messrs. Laff and Neuman testifed that the lawsuit was begun against Mr. Reidy when it was learned that Mr. Reidy paid for some of the accused machines.

The evidence shows Ethicon offered Handgards a license under the Gerard patent prior to the lawsuit.

Mr. Webbe and Mr. Blatz have testified that in their opinion the license offered was not reasonable, and would have put Handgards at a competitive disadvantage.

Mrs. Laff, Neuman, and Schlemmer, testified that the letter from Mr. Gerard to Mr. Porter, dated March 16th, 1965, in which Mr. Gerard enclosed a copy of his patent, did not constitute a misuse of the Gerard patent.

The evidence shows that as of at least the date of that letter, all disposable plastic gloves purchased by hair care kit companies were manufactured under the Gerard process.

Mr. Gerard and Mr. Porter testified that the letter was sent at the specific request of Mr. Porter.

Messrs. Laff, Neuman, and Schlemmer testified that no one except a manufacturer of gloves could have been sued under the Gerard patent, which was the sole object of that letter.

Id. at 2114-16.

As we indicated in the text, our review of the record convinces us that only the bad faith theory of recovery exists in this case. The evidence of an overall scheme to monopolize the relevant market constitutes substantially the same evidence relied upon to show Ethicon's alleged bad faith prosecution conduct. If this evidence, under the instructions our opinion requires, should fail to support the bad faith theory, it should not be sufficient to support the overall scheme theory. To hold otherwise would undercut the protections we here seek to afford the ordinary patentee. For this reason we are unable to affirm the judgment below on the basis of the jury's finding that an overall scheme existed. It is unnecessary for us to address explicitly the issue whether the trial court erred in charging the jury on two theories. It is enough to point out that if on retrial the evidence remains substantially the same, the charge

remand, 360 F.Supp. 451 (D. Minn. 1973), *aff'd mem.*, 417 U.S. 901, 94 S.Ct. 2594, 41 L.Ed.2d 207 (1974). Handgards has neither pleaded nor proved that Ethicon engaged in a pattern of baseless, repetitive litigation designed to prevent meaningful access to an adjudicatory tribunal. *See generally Franchise Realty Interstate Corp. v. San Francisco Local Joint Executive Board of Culinary Workers*, 542 F.2d 1076, 1081 n.4, 1087 (9th Cir. 1976), *cert. denied*, 430 U.S. 940, 97 S.Ct. 1571, 51 L.Ed.2d 787 (1977).[16]

Rather, this case involves simply the commencement and maintenance of related infringement actions in what the jury found to be bad faith.

A clash between the policies of patent and antitrust laws also was present in *Walker Process* and *Kobe*. In the former the compromise consisted of erecting high barriers to success by the antitrust plaintiff. As we noted in *Cataphote Corp. v. DeSoto Chemical Coatings, Inc.*, 450 F.2d 769 (9th Cir. 1971), *cert. denied*, 408 U.S. 929, 92 S.Ct. 2497, 33 L.Ed.2d 341 (1972):

> The patent fraud proscribed by *Walker* is extremely circumscribed. In *Walker* the Supreme Court excluded from its definition of fraud "an honest mistake as to the effect of prior installation upon patentability—so-called 'technical fraud.' " *Walker, supra*, [382 U.S.] at 177, 86 S.Ct. 347, 350 [15 L.Ed.2d 247]. Wholly inadvertent

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to the jury should reflect only the bad faith theory. We express no opinion on the type of additional evidence that would require an overall scheme charge. *Kobe, Inc. v. Dempsey Pump Co.*, 198 F.2d 416 (10th Cir.), *cert. denied*, 344 U.S. 837, 73 S.Ct. 46, 97 L.Ed.2d 651 (1952) is the archetype, however.

16 Judge Kennedy's opinion, concurring in the result and qualifiedly concurring in the majority's opinion, suggests that defendant Ethicon may have available on remand the "immunity" afforded by *Franchise Realty*. Our opinion treats "infringement actions initiated and conducted in bad faith," established in the manner we require, as violative of Section 2 of the antitrust law. When so established, it would be strange to then hold that nonetheless a *Franchise Realty* immunity might exist. In any event, this is an issue that the present record does not require us to address.

> errors or honest mistakes which are caused by neither fraudulent intent or design, nor by the patentee's gross negligence, do not constitute fraud under *Walker*. . . . The road to the Patent Office is so tortuous and patent litigation is usually so complex, that "knowing and willful fraud" as the term is used in *Walker* can mean no less than *clear, convincing proof of intentional fraud involving affirmative dishonesty*, "a deliberately planned and carefully executed scheme to defraud * * * the Patent Office." . . . Patent fraud cases prior to *Walker* required a rigorous standard of deceit. . . . *Walker* requires no less.

450 F.2d at 772 (emphasis added) (footnote and citations omitted). *See SSP Agricultural Equipment, Inc. v. Orchard-Rite Ltd.*, 592 F.2d 1096 at 1103 (9th Cir. 1979).

In overall scheme cases such as *Kobe*, courts require proof of an overall scheme to monopolize independent of the mere commencement of an infringement suit before permitting the imposition of antitrust liability based on patent enforcement conduct. This requirement diminishes the specter of antitrust liability encountered by an ordinary patentee who brings an infringement action. *See* Hibner, *Litigation as an Overt Act—Development and Prognosis*, 46 Antitrust L.J. 718, 720 (1977).

The common thread is that in both *Walker Process* and *Kobe* barriers were erected to prevent frustration of patent law by the long reach of antitrust law. This suggests our proper course. It is to erect such barriers to antitrust suits as are necessary to provide reasonable protection for the honest patentee who brings an infringement action to protect his legal monopoly.

A proper barrier is, in our opinion, suggested by *Walker Process*. It is that the jury should be instructed that a patentee's infringement suit is presumptively in good faith and that this presumption can be rebutted only by clear and convincing evidence. *See Cataphote Corp., supra*, 450 F.2d at 772; *SSP Agricultural Equipment, supra*. Such an instruction accords

the patentee a presumption commensurate with the statutory presumption of patent validity set forth in the patent laws, 35 U.S.C. § 282, which can only be rebutted by a showing of clear and convincing evidence. *See, e.g., Santa Fe-Pomeroy, Inc. v. P & Z Co.*, 569 F.2d 1084, 1091 (9th Cir. 1978); *Saf-Gard Products, Inc. v. Service Parts Inc.*, 532 F.2d 1266, 1271 (9th Cir.), *cert. denied*, 429 U.S. 896, 97 S.Ct. 258, 50 L.Ed.2d 179 (1976).

The trial court in this case, however, gave no such instruction. *See* note 15 *supra*. Moreover, it charged that the patentee's subjective bad faith need only be proved by a mere preponderance of the evidence. This constitutes reversible error. The district court charge eliminates a barrier we hold necessary, and were it accepted as proper, "might well chill" legitimate patent enforcement efforts "because of fear of the vexations or punitive consequences of treble-damage suits." *Walker Process*, *supra*, 382 U.S. at 180, 86 S.Ct. at 352 (Harlan, J., concurring).

The barrier we impose is not one intended to be utilized in antitrust litigation generally. It is fashioned in response to the unique characteristics of proceedings in which the alleged violation of the antitrust law consists solely of one or more infringement actions initiated in bad faith.

III.

Damages Recoverable By Victims of Bad Faith Infringement Actions

Difficulty also exists with respect to the trial court's charge to the jury concerning the nature of the injuries for which plaintiff properly may recover damages in an antitrust suit based upon a bad faith prosecution theory. "The Supreme Court has recently ruled that the only damages recoverable in an antitrust suit are those which occur by reason of that which made the defendant's actions unlawful." *Kapp v. National Football League*, 586 F.2d 644, 648 (9th Cir. 1978) (citing *Brunswick Corp. v. Pueblo Bowl-O-Mat, Inc.* 429 U.S. 477,

489, 97 S.Ct. 690, 50 L.Ed.2d 701 (1977). *Brunswick* states the applicable rule and is the governing authority:

> . . . [For] plaintiffs to recover treble damages . . . they must prove more than injury causally linked to . . . [the antitrust violation]. Plaintiffs must prove *antitrust* injury, which is to say injury of the type the antitrust laws were intended to prevent and that flows from that which makes defendant's acts unlawful. The injury should reflect the anticompetitive effect either of the violation or of anticompetitive acts made possible by the violation. It should, in short, be "the type of loss that the claimed violations. . . would be likely to cause." *Zenith Radio Corp. v. Hazeltine Research*, 395 U.S. [100] at 125 [89 S.Ct. 1562 at 1577, 23 L.Ed.2d 129].

429 U.S. at 489, 97 S.Ct. at 697-698 (emphasis in original) (footnote omitted).

Plaintiff must show that the injury for which it seeks to recover is "the type the antitrust laws were intended to prevent" and "flows from that which makes defendant's acts unlawful." In a suit alleging antitrust injury based upon a bad faith prosecution theory it is obvious that the costs incurred in defense of the prior patent infringement suit are an injury which "flows" from the antitrust wrong. Damages for the loss of profits, however, will not necessarily so flow. We have some doubt, for example, whether plaintiff's damage claim for lost profits allegedly resulting from the entry of an additional competitor into the market during the pendency of the infringement suit is the type of injury for which antitrust recovery is appropriate. "The antitrust laws . . . were enacted for "the protection of *competition*, not *competitors*." *Brunswick*, *supra*, 429 U.S. at 488, 97 S.Ct. at 697 (quoting *Brown Shoe Co. v. United States*, 370 U.S. 294, 320, 82 St. Ct. 1502, 8 L.Ed.2d 510 (1962). Moreover, the jury's finding in this case that Ethicon possessed a valid patent covering the market it was accused of monopolizing also raises doubts concerning

whether plaintiff's lost profits "flowed from" the antitrust wrong claimed in this case.

The court's charge concerning the damages available to plaintiff for lost profits is ambiguous. Several times the court stated that plaintiff could only recover for lost profits that it would have earned "but for" the antitrust violation by the defendant. *See* Reporter's Transcript at 2160, 2162. The court also stated however, that plaintiff could recover as damages profits lost as the "proximate result" of the antitrust violation. *Id.* at 2163. The court earlier had defined the term "proximate cause" to mean "an act . . . [that] played a substantial part in bringing about" the injury. *Id.* at 2161. According to *Brunswick*, plaintiff must show more than that it suffered injury causally linked to the antitrust violation; the injury must be shown to have "flowed" from the wrong. To "flow" from the wrong, *Brunswick* suggests, the loss must be " 'the type of loss that the claimed violations. . . would be likely to cause.' " 429 U.S. at 489, 97 S.Ct. at 697, quoting from *Zenith Radio Corp. v. Hazeltine Research*, 395 U.S. 100, 125, 89 S.Ct. 1562, 23 L.Ed.2d 129 (1969). To be one of several causes is not enough. The injury must be of the type likely to be caused by the defendant's bad faith infringement action. On the record before us we are left in doubt whether the Brunswick test has been met with respect to plaintiff's claim for lost profits. The failure of the trial court to resolve this doubt specifically constitutes error.

IV.

The Reasonable Balance

The additional burdens imposed by our holdings on those who seek an antitrust recovery against one who has brought a patent infringement action against them achieve what we believe to be a reasonable accommodation of the policies of patent and antitrust law. Patent holders must be cautious in bringing infringement actions and alleged infringers remain equipped with a strong retaliatory weapon available for use

against those who sue them in bad faith.[17] We think this represents a reasonable balance.

Accordingly, this case is reversed and remanded to the district court for a new trial in accordance with the views expressed herein.

REVERSED and REMANDED.

Each party to this appeal shall bear its own costs and neither party's costs shall be taxed against the other. Rule 39, F.R. App. P.

On Petition for Rehearing.

KENNEDY, *Circuit Judge,* concurring:

I concur in the result of Judge Sneed's opinion, and think it inappropriate to address the question whether or not Ethicon could rely on an immunity granted to antitrust defendants under the principles set forth in *Franchise Realty Interstate Corp. v. San Francisco Local Joint Executive Board of Culinary Workers,* 542 F.2d 1076 (9th Cir. 1976), *cert. denied,* 430 U.S. 940, 97 S.Ct. 1571, 51 L. Ed. 2d 787 (1977). The matter was not raised by Ethicon at any stage of these proceedings. Since a new trial is required in this case, because of the erroneous jury instructions noted by the majority, the district court in the first instance should determine whether Ethicon may raise the question on retrial.

17 We note that substantial disincentives to instigating ill-founded patent infringement suits that are not actionable under the standard of antitrust liability announced today already exist. For example, the patent laws contain a specific remedy for prosecution in bad faith. 35 U.S.C. § 285; the rule of collateral estoppel announced in *Blonder-Tongue Laboratories, Inc. v. University Foundation*, 402 U.S. 313, 91 S.Ct. 1434, 28 L.Ed.2d 788 (1972) serves to dissuade ill-founded patent infringement suits; and nothing appears to preclude a successful defendant in an infringement action from bringing a common law malicious prosecution claim. Moreover, this opinion does not limit any antitrust liability that a patentee may incur for conduct actionable under an overall scheme or *Walker Process* theory.

In *Franchise Realty* we held that an antitrust plaintiff must plead that the litigation or petitions which allegedly caused competitive injury were sham proceedings, the showing required by a line of Supreme Court decisions, *see Eastern Railroad Presidents Conference v. Noerr Motor Freight,* 365 U.S. 127, 81 S.Ct. 523, 5 L.Ed.2d 464 (1961); *United Mine Workers v. Pennington,* 381 U.S. 657, 85 S.Ct. 1585, 14 L.Ed.2d 626 (1965); *California Motor Transport Co. v. Trucking Unlimited,* 404 U.S. 508 92 S.Ct. 609, 30 L.Ed.2d 642 (1972); *Otter Tail Power Co. v. United States,* 410 U.S. 366, 93 S.Ct. 1022, 35 L.Ed.2d 359 (1973); *Vendo Co. v. Lektro-Vend Corp.,* 433 U.S. 623, 97 S.Ct. 2881, 53 L.Ed.2d 1009 (1977). *Franchise Realty* might be interpreted to require dismissal of antitrust claims unless the plaintiff can show that the defendant's conduct was designed to cause competitive injury by exacting such extraordinary costs that meaningful use of an agency or tribunal was barred, *see* 542 F.2d at 1080-81 & n.4, and perhaps to require further that the defendant must have engaged in conduct other than instigation and maintenance of the proceedings, *see id. See also Wilmorite, Inc. v. Eagan Real Estate, Inc.,* 454 F. Supp. 1124 (N.D.N.Y. 1977); *Ernest W. Hahn, Inc. v. Codding,* 423 F. Supp. 913 (N.D. Cal. 1976). Whether this is a correct interpretation of Franchise Realty or the Sherman Act, *cf.* P. Areeda & D. Turner, *Antitrust Law* § 201-204, 203c n.9 at 44-45 (1978), and whether Ethicon's conduct was actionable under such standards are important questions, but the issues are not presented for consideration here.

The majority opinion seems to suggest that a showing of sham proceedings under *Franchise Realty* is not required where the claimed antitrust injury flows from patent litigation, but it does not indicate the respects in which patent litigation somehow presents a greater threat to interests protected by the Sherman Act than other types of suits governed by *California Motor* and *Franchise Realty.* It is irrelevant that a successful plaintiff in a patent action is enforcing a lawful monopoly. Very costly "sham" unfair competition or tort suits, for exam-

ple, may produce more anticompetitive injury than less costly but successful infringement actions. Moreover, it is difficult to argue that a successful plaintiff has engaged in sham litigation. But to the extent that the patent plaintiff is unsuccessful, I see little reason to distinguish patent litigation from other kinds of litigation. If attempted enforcement of a patent known to be invalid is the special circumstance which justifies a special rule, the court's opinion states no reason to depart from the requirement that a plaintiff prove knowing, intentional fraudulent procurement as stated in *Walker Process*. To the extent that abuse of the judicial process by bad faith prosecution of a claim known to be without merit is the essence of the antitrust violation, the court's opinion states no reason for departing from the circuit's precedents, *see Franchise Realty,* governing this type of antitrust violation. Further, a more lenient rule for patent litigation appears at odds with the principal holding that a special burden of proof is required before an antitrust plaintiff may prevail on the claim of injury from a previous patent litigation, our purpose being to avoid undue discouragement to the adjudication of patent infringement claims. In my view, however, whether and why the kind of antitrust litigation permitted in *Walker Process* is distinguishable in meaningful ways from that discussed in *California Motor,* the relationship between the different standards applied in those cases, and the applicability of *Franchise Realty* to this case, are best left for a later decision when the point has been specifically raised by the parties.[1]

1 Defendant's position on this appeal was that antitrust claims based on the prior bringing of infringement actions differ from other kinds of antitrust suits based on alleged abuse of the judicial system. It expressly declined to rely on *California Motor,* stating in its brief: "The only relevance of *California Motor Transport,* which had nothing to do with patents, is its explicit reaffirmation by the Supreme Court of *Walker Process* as the applicable standard of fraud in connection with a § 2 case charging enforcement of invalid patents." Appellant's Brief at 27. Instead, defendants argued that this case was governed by *Walker Process*. They claimed plaintiff should have been required to prove common law intentional fraud, not merely bad faith, and that the standard of proof should have been clear and convincing instead of a preponderance of the evidence. Their second argument is adopted in Judge Sneed's opinion.

Finally, the majority states that in proving injury "flowing from" an antitrust violation, "To be one of several causes is not enough." To the extent this langugage suggests a change in the normal standards regarding causation in antitrust cases, the statement is unexplained. There is no need in this case to reexamine the rule that "proximate cause" in antitrust cases is defined in terms of "a substantial cause." *See Mulvey v. Samuel Goldwyn Productions,* 433 F.2d 1073, 1075 n.3 (9th Cir. 1970); *Hecht v. Pro-Football, Inc.*, D.C. Cir. 187 U.S. App. D.C. 73, 570 F.2d 982, 996 (1977); *Billy Baxter, Inc. v. Coca-Cola Co.*, 431 F.2d 183, 187 (2d Cir. 1970); E. Devitt & C. Blackmar, Federal Jury Practice and Instructions §§ 90.31, 80.18 (1977) ("proximate cause" in antitrust cases defined in terms of "substantial factor"). To the extent the language applies only to antitrust claims based on prior patent infringement actions, the majority similarly does not explain why a different causation rule is appropriate in this kind of case. *Brunswick Corp. v. Pueblo Bowl-O-Mat, Inc.*, 429 U.S. 477, 97 S.Ct. 690, 50 L.Ed.2d 701 (1977), is squarely in point for our holding that the injury must result from a competitive wrong prohibited by the antitrust laws, but in my view it should not be interpreted to introduce a new standard for proving causation either in antitrust cases generally or antitrust claims based on prior patent litigation. I am not as sure as Judge Sneed that part of Handgards' damages claim was for lost profits resulting from the entry of an additional competitor, but I agree that the effect of the Orsini patent on plaintiff's claim of injury creates an issue which the district court should decide.

With the above observations, I concur in the opinion of the majority.

Appendix D

UNITED STATES DISTRICT COURT
N.D. CALIFORNIA

No. C-49451 SAW.

Dec. 13, 1982.

HANDGARDS, INC., a corporation

Plaintiff,

v.

ETHICON, INC., a corporation

Defendant.

ORDER DENYING MOTION FOR JUDGMENT NOTWITHSTANDING THE VERDICT, FIXING THE APPLICABLE RATES AND PERIODS OF INTEREST ON THE JUDGMENT, AND AWARDING ATTORNEY'S FEES

WEIGEL, *District Judge.*

The first trial of this antitrust action resulted in a jury award on March 1, 1976, of $6,219,000 after trebling. On appeal, the Court of Appeals for the Ninth Circuit reversed the judgment on the grounds of error in the trial court's instructions to the jury and remanded for a new trial. *See Handgards, Inc. v. Ethicon, Inc.*, 601 F.2d 986 (9th Cir. 1979), *cert. denied*, 444 U.S. 1025, 100 S.Ct. 688, 62 L.Ed.2d 659 (1980). On August 6, 1982, following a new trial, a jury awarded plaintiff damages after trebling of $10,761,993. Defendant moves for judgment notwithstanding the verdict or, in the alternative, for a new trial. Plaintiff moves the Court to fix the applicable rates and

periods of interest on the judgment and to award attorney's fees.

Defendant's Motion for Judgment Notwithstanding The Verdict or, in the Alternative, for a New Trial

A motion for judgment notwithstanding the verdict is properly granted only "if, without accounting for the credibility of the witnesses, * * * the evidence and its inferences, considered as a whole and viewed in the light most favorable to the nonmoving party, can support only one reasonable conclusion—that the moving party is entitled to judgment notwithstanding the adverse verdict." *William Inglis & Sons Baking Co. v. ITT Cont. Baking Co.*, 668 F.2d 1014, 1026 (9th Cir. 1982). A new trial is appropriate if "the jury's verdict was clearly contrary to the weight of the evidence." *Id.* at 1027. The record in this case reasonably supports the jury's verdict. Consequently, defendant is entitled to neither judgment notwithstanding the verdict nor a new trial.

Plaintiff's Motion to Fix the Applicable Rates and Periods of Interest on the Judgment

The parties agree that plaintiff is entitled to post-judgment interest at the lawful rate from the date of the present judgment, August 6, 1982. 28 U.S.C. § 1961 provides that "interest should be allowed on any money judgment in a civil case recovered in a district court." For periods prior to October 1, 1982, interest is to be determined "at the rate allowed by state law." *Id.* (1982). 28 U.S.C. § 1961 was recently amended to provide, effective October 1, 1982, that "[s]uch interest shall be calculated from the date of the entry of the judgment, at a rate equal to the coupon issue yield equivalent (as determined by the Secretary of the Treasury) of the average accepted auction price for the last auction of fifty-two week United States Treasury bills settled immediately prior to the date of the judgment. * * *" Section 302 of the Federal Court Improvements Act of 1982, P.L. 97-164, 96 Stat. 55.

The parties differ, however, over whether plaintiff should receive interest on the amount of the first judgment from the date of its entry on March 1, 1976. It is well settled that interest on that part of a judgment affirmed on appeal should be computed from the date of the judgment's initial entry. *See Kneeland v. American Loan & Trust Co.*, 138 U.S. 509, 511, 11 S.Ct. 426, 427, 34 L.Ed. 1052 (1891); *Lew Wenzel & Co. v. London Litho Supply Co.*, 563 F.2d 1367, 1369 (9th Cir. 1977); *Perkins v. Standard Oil*, 487 F.2d 672, 676 (9th Cir. 1973); *United States v. Hougham*, 301 F.2d 133, 134-35 (9th Cir. 1962).

The Court of Appeals for the Ninth Circuit has recently expanded this rule in *Mt. Hood Stages, Inc. v. Greyhound Corp.*, 616 F.2d 394 (9th Cir. 1980), and *Twin City Sportservice v. Charles O. Finley & Co.*, 676 F.2d 1291 (9th Cir. 1982). In *Mt. Hood*, the Supreme Court reversed in part the district court's award of damages on the ground that the relevant statute of limitations had expired, and remanded for determination of whether tolling of the statute was justified on equitable principles. *See Greyhound Corp. v. Mt. Hood Stages, Inc.*, 437 U.S. 322, 98 S.Ct. 2370, 57 L.Ed.2d 239 (1978). The district court on remand found that equitable tolling was justified, and awarded the same amount of damages it had originally granted. On appeal, the Court of Appeals for the Ninth Circuit upheld the district court's award of interest on the entire judgment from the date of its original entry. 616 F.2d at 407. The Court of Appeals expressly declined to follow those cases holding that interest does not accrue on a vacated judgment. *See id.*

In *Twin City*, the district court found the defendant had committed four antitrust violations and awarded damages. The Court of Appeals reversed the district court's legal conclusions with respect to all four violations. On remand, and after receiving new evidence, the district court found the defendant had committed two of the violations, and awarded the same amount of damages as after the first trial, but granted interest only from the date of the second judgment. On appeal, the Court of Appeals reversed in part and awarded interest from

the date of the first judgment, despite the fact that "the issue of antitrust liability was not firmly settled until the post-remand judgment[ ] * * * *" 676 F.2d at 1311.

In this case the first judgment was reversed by the Court of Appeals on the grounds of error in the Court's instructions to the jury and insufficient evidence to support a jury charge on one of plaintiff's two theories of liability. *See Handgards, Inc. v. Ethicon, Inc.*, 601 F.2d 986, 995 n.15 (9th Cir. 1979), *cert. denied*, 444 U.S. 1025, 100 S.Ct. 688, 62 L.Ed.2d 659 (1980). After a new trial, a jury awarded damages in an amount larger than the first judgment.

Although here, unlike *Mt. Hood* and *Twin City*, the second judgment is larger than the first, that fact should not preclude an award of interest on the first judgment from the date of its entry. In this case, as in *Twin City*, antitrust liability was not established until the second judgment. In addition, in both cases the second judgment was entered only after a new trial was held or new evidence received. Similarly, in both cases the second judgment was based upon only some of the theories of liability that supported the first judgment.

A plaintiff's right to post-judgment interest should not hinge on the fortuity that on remand the finder of fact will award the *exact* amount of damages awarded at the first trial. Furthermore, if interest is not allowed on the first judgment from the date of its entry simply because the first and second judgments are not for the same amount, then a successful plaintiff could be penalized for receiving a second judgment larger than the first judgment. A second judgment that is larger than the first could result in a lower total recovery of principal plus interest by a successful plaintiff than were the two judgments for the same amount. Defendant's contention that calculating interest on different parts of the judgment from different dates would "plunge[ ] the Court into an unprecedented exercise in splitting the current judgment" is meritless. Such calculations are a familiar task for courts. *See e.g., Lew Wenzel & Co., supra; Perkins, supra.* Hence, plaintiff is entitled to interest on the first judgment from March 1, 1976.

Plaintiff's Motion to Award Attorney's Fees

A prevailing plaintiff in an antitrust action is entitled to "a reasonable attorney's fee" pursuant to Section 4 of the Clayton Act, 15 U.S.C. § 15. The appropriate method for determining a reasonable fee is to multiply the number of hours worked by the customary hourly rate of compensation for like services. The resulting "lodestar" figure is then adjusted based on the novelty and difficulty of the questions raised, the results of the litigation, the experience and ability of the attorneys, attorney's fees awards in similar cases, and like factors. *See, e.g., Kerr v. Screen Extra Guild,* 526 F.2d 67, 70 (9th Cir. 1975), *cert. denied,* 425 U.S. 951, 96 S.Ct. 1726, 48 L.Ed.2d 195 (1976).

Plaintiff requests an attorney's fee of $2.5 million. By contrast, defendant urges that no more than $618,633 be awarded as a reasonable fee. The Court finds that reasonable attorney's fees for the first trial, the subsequent appeal, and the second trial are $1,064,943.10.

On July 13, 1976, Judge Orrick awarded plaintiffs $498,955 following the first trial as a reasonable attorney's fee in the action. Judge Orrick reached this figure by multiplying the number of hours he found to be compensable, 4,223, by an average hourly rate of $85, and then increasing the resulting lodestar figure by $140,000, equivalent to a multiplier of approximately 1.39.

Defendant urges that the Court not increase the award made by Judge Orrick for work performed prior to the first judgment. Plaintiff argues that Judge Orrick's award should be increased in two respects. First, plaintiff asserts that the 1350 hours that Judge Orrick subtracted as spent in pursuit of unsuccessful claims should be compensated based upon the recent decision of the Court of Appeals for the Ninth Circuit in *Twin City Sportservice v. Charles O. Finley & Co.,* 676 F.2d 1291 (9th Cir. 1982). Plaintiff misconstrues the rule enunciated in *Twin City,* and thus is not entitled to compensation for those hours. *See id.* at 1316 (work on claims unrelated to the successful recovering of antitrust damages may be excluded

from award). Second, plaintiff claims that the appropriate hourly rate at which it should be compensated is that of the time of the petition and not the historical rate in force at the time the services were rendered, and that the current average rate for plaintiff's counsel is $150 per hour. In protracted antitrust litigation, a successful plaintiff's attorney should be compensated for delay in the payment for services rendered. A court may do so either by adopting a current hourly rate or by increasing the multiplier used to adjust the lodestar figure. *See Virginia Academy of Clinical Psychologists v. Blue Shield,* 543 F.Supp. 126, 144 (E.D.Va. 1982); *Chrapliwy v. Uniroyal,* 509 F.Supp. 442, 457-58 (N.D. Ind. 1981); *Weiss v. Drew Nat'l Corp.,* 465 F.Supp. 548, 552-53 (S.D.N.Y. 1979). Thus, in this case the Court may either use a current hourly rate to compensate work done prior to the first judgment or increase Judge Orrick's multiplier of 1.39 to adjust for the additional delay endured by plaintiff's counsel since the first judgment on March 1, 1976.

Rather than simply adding delay in receipt of payment to the already long list of factors to be considered in determining an appropriate multiplier, *see, e.g., Virginia Academy, supra,* at 131 & n. 5, a current hourly rate will be used to compute plaintiff's attorney's fees. This method more directly adjusts the award for the combined effects of delay in payment and inflation. *See Virginia Academy, supra,* at 144; *Chrapliwy, supra,* at 458.

Plaintiff urges that a current hourly rate of $150 per hour be used to determine the award. Taking into account the skill and experience of plaintiff's counsel, the Court finds that a rate of $115 per hour is justified. In addition, although plaintiff's counsel submit that their current billing rates are $190 per hour for Mr. Blecher, $150 per hour for Mr. Bennett, and $125 per hour for Ms. Bennett, considerable work over the course of the litigation has been performed by associates for whom plaintiff provides no hourly rate. Hence a lower hourly rate of $115 per hour is warranted.

Applying the $115 per hour rate to the 4,223 hours Judge Orrick found properly compensable yields a lodestar figure of $485,645. Multiplying the lodestar by Judge Orrick's multiplier

of 1.39 results in an attorney's fee for work done prior to Judge Orrick's award of $675,046.55.

Plaintiff asserts that a total of 3,005 lawyer hours, plus 265 paralegal hours, have been spent in prosecuting the case since the first judgment. Defendant urges that various deductions be made from this figure for hours spent on unsuccessful claims, for hours spent prior to Judge Orrick's award, for unproductive work, and for excessive trial preparation. First, 300 hours must be deducted for work spent unproductively and on unsuccessful claims. Because the Blecher firm has failed adequately to support the fees requested with contemporaneously maintained time records, "the Court must * * * make [these] reductions in the fee requested." *In Re Equity Funding Corp. of America Securities,* 438 F. Supp. 1303, 1328 (C.D. Cal.1977). Second, based on the time records submitted by plaintiff's counsel, 328.75 hours must be subtracted for time spent prior to Judge Orrick's award and already compensated in that award.

Finally, 20 hours must be deducted for time spent on plaintiff's attorney's fees request, which is not compensable. *See, e.g., Locklin v. Day-Glo Color Corp.*, 378 F. Supp. 423 (N.D.Ill.1974). These deductions result in a total number of compensable lawyer hours of 2,356.25.

Multiplying the number of compensable hours by the current average hourly rate of $115 per hour results in a lodestar award of $270,968.75. When increased by the multiplier of 1.39, which the Court finds appropriate for work done after the first judgment as well as for services provided prior to that date, this figure rises to $376,646.56. Adding $13,250 to this figure for 265 paralegal hours compensated at $50 per hour results in a total award for work done after Judge Orrick's award of $389,896.56. Hence the total attorney's fee for work done in this action, both before and after the first judgment, is $1,064,943.10.

Accordingly,

IT IS HEREBY ORDERED that defendant's motion for judgment notwithstanding the verdict or, in the alternative, for a new trial is denied.

IT IS FURTHER HEREBY ORDERED that the Judgment entered herein on August 6, 1982, be supplemented to provide as follows:

1. As to Six Million Two Hundred Nineteen Thousand Dollars ($6,219,000) of the present judgment, interest shall accrue at the legal rate in California of seven (7) percent from March 1, 1976, through August 6, 1982.

2. As to the whole of the present judgment plus attorney's fees awarded herein, a total of Eleven Million Eight Hundred Twenty-Six Thousand Nine Hundred Thirty-Six Dollars and Ten Cents ($11,826,936.10), interest shall accrue at the legal rate in California of seven (7) percent from August 6, 1982, through September 30, 1982, and from October 1, 1982, forward until paid at a rate equal to the coupon issue yield equivalent (as determined by the Secretary of the Treasury) of the average accepted auction price for the last auction of fifty-two week United States Treasury bills settled immediately prior to the date of the judgment.

IT IS FURTHER HEREBY ORDERED that plaintiff is awarded attorney's fees in this action in the sum of One Million Sixty Four Thousand Nine Hundred Forty-Three Dollars and Ten Cents ($1,064,943.10).

Appendix E

Handgards, Inc. v. Johnson & Johnson, et al.

Handgards, Inc. v. Johnson & Johnson, et al.

U.S. District Court
Northern District of California

No. C49451 WHO.

Filed July 13, 1976

Reporter's Transcript

ORRICK, D.J.:

TUESDAY, JULY 13, 1976

THE COURT: On March 1, 1976, the jury returned a verdict in favor of Plaintiff Handgards and awarded damages which when trebled amount to the sum of $6,219,000. Presently before the Court are various post-trial motions of the parties.

J&J's MOTION FOR ENTRY OF JUDGMENT: The jury returned a verdict against both the defendants, Johnson & Johnson and Ethicon, Inc. (a subsidiary to J & J). The only allegations in the complaint pertaining to J & J alleged that J&J had conspired with Ethicon to restrain and monopolize trade in violation of Sections 1 and 2 of the Sherman Act. The jury, in its answers to Special Interrogatories Nos. 5 and 6 found that no such conspiracy existed. These special findings of fact control over any inconsistent general verdict. See *Golden North Airways v. Tanana Publishing Co.*, 218 F.2d 612, 618 (9th Circuit 1955). Accordingly, J & J is entitled to entry of judgment in its favor.

As a prevailing party, J & J is also entitled to its costs, taxed according to law. See FRCB 54(d). 6 Moore's Fed. Pract., Paragraph 54.70 (2d Ed. 1975).

ETHICON'S MOTION FOR ENTRY OF JUDGMENT AS TO THE VALIDITY OF THE ORSINI PATENT: In Special Interrogatory No. 1, the jury determined that the Orsini patent claims were not anticipated or made obvious in light of the Rosenberg and Sharbram 3007 patent. The parties stipulated that the jury's findings as to this Special Interrogatory would be the basis upon which the Court in the judgment would adjudicate the validity or invalidity of the patent.

The only affirmative defense against the validity of the Orsini patent pressed at trial by Handgards was the issue of anticipation or obviousness. Since the jury found against Handgards on this issue, the stipulation of the parties compels entry of judgment as to the validity of the Orsini patent. (In addition, Handgards conceded that it was infringing this patent. Judgment should be entered accordingly.)

HANDGARDS' MOTION TO AMEND THE JUDGMENT TO DELETE AN ADJUDICATION OF THE VALIDITY OF THE ORSINI PATENT: Handgards has filed a motion entitled "Motion to Amend the Judgement Pursuant to FRCP 60(b)" requesting that the Court delete an adjudication as to the validity of the Orsini patent. Handgards makes this motion in spite of the fact that it knows that judgment has not yet been entered. It should be denied as untimely and improper. Handgards appears to be attempting to evade the consequences of its failure to seek a directed verdict on the issue of the invalidity of the Orsini patent during the trial. Such a failure precludes a motion for a JNOV pursuant to Rule 50(b). Moreover, allowing Handgards to amend the judgment in this respect would vitiate the stipulation entered into on the record to the effect that a judgment of validity would automatically follow in the event that the jury found that 3007 did not anticipate or render Orsini obvious. Granting relief from this stipulation is not appropriate. See *Dal International Trading Company v. Sworn Line, Inc.*, 286 F.2d 523 (2d Circuit 1961).

Handgards argues that it should not have been required to litigate the validity of the Orsini patent in the first place. However, Handgards tried the case, in part, on a theory that Ethicon prosecuted infringement actions on the Orsini patent in bad faith, that is, knowing that the patent was invalid. Having elected to pursue such a theory, Handgards cannot now claim that it was prejudiced by the Court's ruling that the validity of the Orsini patent was at issue.

Nor can Handgards claim that it was surprised by such a ruling. The necessity of litigating the validity of the Orsini patent was raised by the defendants as early as September 1975, and, at a pretrial conference held on October 6, 1975, the Court indicated its tentative agreement with the defendants' position that the validity of the Orsini patent should be explicity ruled upon by the jury.

Handgards' assertion that at most it should have been required to litigate the validity of Claim 8 of the Orsini patent must be rejected in light of Handgards' failure to ask for such a limitation at any time prior to or during trial. Nor can Handgards claim that it was trapped by its agreement to limit the issues of the validity of the Orsini patent to the contention that the patent was anticipated by prior art disclosed in the 3007 patent. If Handgards wanted to raise further defenses to the validity of Orsini, it should have done so before trial, not afterwards. Handgards did have the option of delaying the trial while the issue of the discoverability of the attorney work product was litigated in the Ninth Circuit; it chose to go ahead with its defense of anticipation.

Furthermore, Handgards' suggestion that Ethicon made a judicial admission that other claims of the Orsini patent, particularly Claim 9, were invalid during the preceding patent infringement action is not supported by the record. Thus, the Court declines to rule as a matter of law that Claims 3,4, 5 and 9 of the Orsini patent are invalid.

Moreover, Handgards' present arguments that Claims 8 (and 6 and 7) of the Orsini patent is invalid as a matter of law because of prior public use and prior inventorship by the 3007 patent are barred for untimeliness. *See*, 23 U.S.C. Section 282.

The Court further declines to overturn the jury determination that the 3007 patent did not anticipate Orsini. Accordingly, in light of the parties' stipulation, a judgment of validity should enter, and Handgards' motion to amend the judgment should be denied.

ETHICON'S MOTION FOR A JNOV OR A NEW TRIAL: Ethicon's primary attack on the jury verdict is based upon the jury's determination that the Orsini product patent is valid. Ethicon asserts that there is a fatal inconsistency between this finding and Findings Nos. 3 and 4. (In No. 3, the jury found that Ethicon violated Section 2 of the Sherman Act by prosecuting the patent lawsuits against Handgards and its predecessors in bad faith, that is with actual knowledge that either the Gerard patent or the Orsini patent were invalid. In No. 4, the jury found that Ethicon had prosecuted the prior patent action as a predatory act in an overall scheme to exclude Handgards from the relevant market.)

Ethicon first points out that the product at issue—disposable plastic gloves sold to the hair care market—are indisputedly within the scope of the Orsini patent.

Ethicon then argues vigorously that the possession of a valid patent monopoly which includes within its scope the sole product found to be the relevant market precludes a finding that Ethicon violated Section 2 of the Sherman Act. Ethicon's argument rests on the assertion that antitrust liability may only be premised upon a showing of an illegal exclusion from the relevant market. However, Ethicon points out that it's entirely proper for the holder of a valid patent to exclude others from the area covered by the patent. See, 35 U.S.C. Section 154; *U.S. v. Line Material Company*, [1948-1949 TRADE CASES ¶ 62,225], 333 U.S. 287, 308 (1947). Thus Ethicon asserts that it had every right to prosecute infringement actions against Handgards in order to protect its patent rights. In essence, Ethicon argues that one cannot have a valid monopoly on a product under the patent laws and be guilty of illegally monopolizing sales of that product under the antitrust laws.

Ethicon's position in this regard has obvious appeal. It finds support in the noted case of *U.S. v. duPont & Company*, [1953 TRADE CASES ¶ 67,633], 118 F. Supp. 41, 213-214 (D. Del. 1953) affirmed 351 U.S. 377 (1956), where the trial court stated that a valid product patent represents a defense to a monopoly charge on that product.

There the Court, speaking of duPont's patent on moisture-proof regenerated cellulose (cellophane) stated (p. 213-14):

> There is no proof any moisture-proof cellophane could have been or in fact ever was made during the life of the product patent which was not equally covered by its claims.
>
> * * *
>
> We have here a case involving the grant to duPont on its own invention of a broad product patent, the validity of which is conceded by plaintiff, and a patent which evidence discloses was of such scope that no one without a grant of a license under it could have manufactured lawfully the product claimed. No case of this kind has ever been brought before. To declare, as plaintiff seeks, the award of this patent, with the rights implicit in its ownership, is to be ignored in applying the Sherman Act, is to ask the Court to declare the Sherman Act repealed statutory provisions under which patents are granted. This I will not do.
>
> No judge has ever said where an inventor discloses his invention in return for the grant by the Government of a 17-year exclusive right to practice the same, and, having been awarded the patent, produces the product, he is guilty of monopolization. The valid product patent represents a defense to the monopoly charge.

Ethicon then asserts that since the product at issue is covered by a valid patent, any other anticompetitive activity or the acquisition of any other illegal or invalid patents in regard to the same product must be disregarded.

I do not believe that this is the law. The inherent tension between the patent laws and the antitrust laws has already been recognized by this Court. However, even if the Orsini patent is determined to be valid, the jury verdict can be sustained under the overall scheme theory established in *Kobe v. Dempsey Pump* and its progeny. See *Kobe, Inc. v. Dempsey Pump Co.*, [1952 TRADE CASES ¶ 67,312], 198 F.2d 416 (Tenth Circuit 1952) *cert. denied*, 344 U.S. 837; *Mach-Tronics v. Zirpoli*, [1963 TRADE CASES ¶ 70,752], 316 F.2d 820 (Ninth Circuit 1963); *Rex Chainbelt, Inc. v. Harco Products, Inc.*, [1975-1 TRADE CASES ¶ 60,179], 512 F.2d 993 (Ninth Circuit 1975) *cert. denied* ____ U.S. ____.

These cases and others in the same line stand for the proposition that a party violates the antitrust laws by bringing a patent infringement action or actions as one predatory act in furtherance of or as an integral part of an overall scheme to monopolize.

The Ninth Circuit summarized the rule as follows:

> Where it is shown that an infringement action has, in fact, been brought as an integral part of an agreement or plan to violate the antitrust laws . . . treble damages should be recoverable, whether or not there was a colorable claim of infringement. *Rex Chainbelt, supra*, 512 F.2d at 1005.

MOTIVE

Even if the Orsini patent is valid, the plaintiff argued and the jury could have properly found that the Orsini patent was acquired for an anticompetitive motive and as part of an overall scheme to exclude Handgards as a competitor.

The most recent case in the *Kobe* line acknowledged that infringement enforcement, while lawful in itself, may be part of an unlawful scheme to monopolize violative of the antitrust laws. *Sulmeyer v. Seven-Up Co.*, CCH 1976-1 TRADE CASES ¶ 60,799 (S.D.N.Y. 1976). There the Court stated:

> Further, if the institution of patent enforcement proceedings is part of a purposeful drive to obtain and preserve a monopoly, the fact that a patent is valid and infringed will not preclude a finding of an antitrust violation.

In *Rex Chainbelt*, the Circuit, referring to the report of the Attorney General's Committee to Study the Antitrust Laws (1955) recognized that threats of suits under weak and narrow patents may be a potent weapon in deterring competition. See also, *Prelin Industires, Inc. v. G & G Crafts, Inc.*, 375 F.Supp. 52, 70 (W.D. Okla. 1972).

Ethicon argued that the overall scheme theory is only applicable where the patent holder attempts to misuse his patent by illegally extending it beyond its scope. I do not read the *Kobe* cases to include such a requirement. Ethicon further asserts that there is insufficient evidence to support a finding that the infringement actions were prosecuted as predatory acts in an overall scheme to monopolize. However, I am satisfied that there is sufficient evidence in the record to sustain the jury's finding in this regard. As the Supreme Court has noted, plaintiff's proof should not be compartmentalized. See *Continental Ore Co. v. Union Carbide Co.*, [1962 TRADE CASES ¶ 70,361], 370 U.S. 690 (1962).

With this in mind, I do not believe that this is a case where, without weighing the credibility of the evidence, there can be but one reasonable conclusion as to the verdict. See *Brady v. Southern Railroad*, 320 U.S. 476 (1943). Here the willful acquisition of illegal exclusionary power in the relevant market can be properly inferred from the accumulation of patents for anticompetitive purposes, the bringing of infringement actions on patents of weak and doubtful validity, and the dissemination of threats in the marketplace.

Moreover, Ethicon ignores the finding of the jury in Special Interrogatory No. 3 to the effect that it prosecuted the Gerard patent in bad faith, that is, with knowing invalidity.

The finding of bad faith prosecution reinforces the finding of the jury on the overall scheme theory of liability. Moreover,

in the Court's view, the finding of bad faith prosecution alone is sufficient to support the verdict. I adhere to my previous ruling that the bringing of an illfounded patent infringement action, in bad faith, can constitute an antitrust violation in and of itself, if such suit was initiated or maintained with an intent to monopolize the relevant market and the other elements of a Section 2 violation are also present. This type of antitrust violation is grounded upon the view that a monopoly may not be acquired, preserved, or enhanced by abuse of the judicial system. See *Otter Tail Power Co. v. United States*, [1973-1 TRADE CASES ¶ 74,373], 410 U.S. 366 (1973); *California Motor Transport Co. v. Trucking Unlimited*, [1972 TRADE CASES ¶ 73,795], 404 U.S. 508 (1972); *Kellogg Co. v. National Biscuit Co.*, [1932-1939 TRADE CASES ¶ 55,056], 71 F.2d 662, 666 (Second Circuit 1934).

Relying primarily on *Virtue v. Creamery Package Co.*, 227 U.S. 8 (1913), Ethicon asserts that the mere malicious prosecution of a patent infringement action cannot constitute an antitrust violation. See also *International Visible Systems v. Remington-Rand*, 65 F.2d 540 (Sixth Circuit 1933). However, as noted in *Kobe*, the Supreme Court in *Creamery Package* did not establish a *per se* rule that any actions designed to *further* an existing patent monopoly cannot sustain a finding of antitrust liability. *Kobe v. Dempsey Pump, Inc.*, *supra*, 198 F.2d at 425. The remarks of Judge Augustus Hand in *Kellogg* are pertinent:

> It must be borne in mind, however, that it would not be enough to show that the defendant brought a groundless suit to establish the exclusive right to market goods of a certain shape. There must be adequate proof that it was with the attempt not to establish the right but to restrain competition and monopolize part of the trade or commerce between the several states. *Virtue v. Creamery Package Mfg. Co.*, 227 U.S. 8, 38, 33 S.Ct. 202, 57 L.Ed. 393. While it doubtless would not be within the Anti-Trust Acts to bring a suit to assert a patent right whatever the motive, if the claim was valid, an attempt to assert a known invalid claim would be a different matter.

I further find that there is sufficent in the record to support the Jury's Special Finding No. 3. Ethicon argues that it is entitled to a judgment as a matter of law on this issue because it initiated and pursued the infringement suits on the advice of counsel. It is true that in ordinary circumstances, reliance on the advice of counsel is a complete defense to a malicious prosecution action. See *Hernon v. Revere Copper Brass Co.*, 494 F.2d 705 (Eighth Circuit 1974) *cert. denied* 417 U.S. 970 (1974). However, advice of counsel is only a defense if all facts have been disclosed to the attorneys and the advice is sought in good faith and acted upon honestly. Given the evidence in this case that Gerard, an officer of Ethicon, knew that his patent was invalid, the jury could have found that Ethicon did not rely in good faith upon the advice of counsel.

Next, Ethicon contends that the Court improperly invoked the doctrine of collateral estoppel in regard to Judge Burke's findings in the prior patent action as to the prior public use of the Shabram apparatus invalidating the Gerard patent and as to Shabram's credibility. However, the defendants' position that the application of the doctrine of collateral estoppel is limited to "ultimate facts," derived from *Evergreens v. Nunan*, 144 F.2d 927 (Second Circuit 1944), is no longer the accepted view. See *Hyman v. Regenstein*, 258 F.2d 502, 510-511 (Fifth Circuit 1958); *Overseas Motors Inc. v. Import Motors, Limited, Inc.*, [1974-2 TRADE CASES ¶ 75,242], 375 F. Supp. 499, 523 (E.D. Mich. 1974); 1B, Moore's Fed. Pract. Paragraph 442(2).

Here the requirements for collateral estoppel were met: the issues were necessary to the initial judgment in the patent action; the defendants herein had an adequate opportunity and did fully litigate the issues in the previous action; and the defendants were fully aware that subsequent litigation involving the issues was likely and the first suit involved significant stakes not disproportionate to the stakes herein. See *Hyman, supra. See also, Clark v. Watchie*, 513 F.2d 994, 998 (Ninth Circuit 1975).

Collateral estoppel was invoked in similar circumstances in *Northern Oil Co. v. Socony Mobil Oil Co.*, 347 F.2d 81

(Second Circuit 1965), where facts established in a state court action for malicious prosecution were determined to have a collateral estoppel effect in subsequent federal litigation.

Finally, the Court does not feel that any remarks of plaintiff's counsel relating to the alleged failure of the defendants to produce relevant documents exceeded the parameters established or the bounds of propriety. A new trial is not warranted for this or any other reason.

Accordingly, Ethicon's motion for a JNOV is denied. Ethicon's alternative motion for a new trial is also denied.

Appendix F

UNITED STATES DISTRICT COURT
N.D. CALIFORNIA

No. C-49451 WHO

April 16, 1975

HANDGARDS, INC., a corporation,

Plaintiff,

v.

JOHNSON & JOHNSON, a corporation, and Ethicon, Inc., a corporation,

Defendants.

MEMORANDUM OPINION AND ORDER

ORRICK, *District Judge*

Defendants, Johnson & Johnson ("J&J") and Ethicon, Inc. ("Ethicon"), moved for summary judgment in this seven-year-old antitrust action, and plaintiff, Handgards, Inc. ("Handgards"), moved for an order compelling the production of documents. Upon consideration of the lengthy memoranda filed in support of and in opposition to said motions, and the oral argument heard on March 6, 1975, I have concluded that although certain of the predatory acts alleged by Handgards are unsupported in fact, there are genuine issues of material fact as to others. Accordingly, defendants' motion for summary judgment is granted in part and denied in part. Federal Rules of Civil Procedure, Rule 56(d). Plaintiff's motion to compel the production of documents is granted subject to an *in camera* inspection of the documents.

Preliminarily, it should be noted that summary judgment in antitrust actions should be employed sparingly, particularly where motive and intent are at issue. *Poller v. Columbia Broadcasting System, Inc.*, 368 U.S. 464, 473, 82 S.Ct. 486, 491, 7 L.Ed.2d 458, 464 (1962). If, under any reasonable construction of the facts in evidence and under any acceptable theory of law, the party opposing the motion would be entitled to prevail, summary judgment is improper. *Anderson v. American Automobile Association*, 454 F.2d 1240, 1242 (9th Cir. 1972); *Scooper Dooper, Inc. v. Kraftco Corp.*, 494 F.2d 840, 848 (3d Cir. 1974). If, however, the trial of the matter would develop no additional evidence which would in any way serve to alter the Court's resolution of the case, a disposition under Rule 56 is not only proper, but is mandated. *Peter J. Allen Corp. v. California Furniture Shops, Ltd.*, 344 F.Supp. 437, 441 (N.D.Cal. 1972).

Handgards represented at oral argument on the motion and in its post-hearing reply memorandum that it was not proceeding as though this case were governed by *Walker Process Equipment, Inc. v. Food Machinery & Chemical Corp.*, 382 U.S. 172, 86 S.Ct. 347, 15 L.Ed.2d 247 (1965). This abandonment by plaintiff of its prior primary theory of recovery based on the Orsini patent is no surprise. *Walker Process* stands for the proposition that "the enforcement of a patent procured by fraud on the Patent Office may be violative of § 2 of the Sherman Act provided the other elements necessary to a § 2 case are present." *Id.* at 174, 86 S.Ct. at 349, 15 L.Ed.2d at 249. The Supreme Court stopped short of ruling that a fraudulently obtained patent could be the basis of *per se* illegality under Section 2 of the Sherman Act, deferring such a decision until the proper vehicle arrived. *Id.*, 382 U.S. at 178, 86 S.Ct. at 350, 15 L.Ed.2d at 251. Mr. Justice Harlan, concurring, stressed that "deliberate fraud" was required by the majority, and noted that a reading of the opinion which would permit an antitrust violation to be premised on a patentee's failure to comply with one or more of the numerous technicalities inherent in the patent process "might well chill the disclosure of inventions through the obtaining of a patent because of fear of

the vexations or punitive consequences of treble-damage suits." *Id.* at 180, 86 S.Ct. at 352, 15 L.Ed.2d at 253.

Handgards alleged a *Walker Process* violation in regard to the procurement of the Orsini patent, but, as noted *supra*, this contention has been abandoned. In passing, it should be noted that the Orsini infringement suit was not prosecuted in violation of *Walker Process*. Much has been said about the information contained in the various Patent Office files and whether or not the patent examiner should have been aware of certain representations to be found therein. But, a party's failure to inform the Patent Office of information in its own files does not amount to the extremely circumscribed "intentional fraud" necessary to prove an action under *Walker Process* (*Id.* 382 U.S. at 176, 86 S.Ct. at 349, 15 L.Ed.2d at 250; *Cataphote Corporation v. DeSoto Chemical Coatings, Inc.*, 450 F.2d 769, 772-773 (9th Cir. 1971)), and thus the Orsini claim would have to fall even in the absence of the express abandonment.

The complaint in this case has never contained a *Walker Process* allegation in regard to the Gerard patent. Such a contention was sought to be added in May of 1974, but Judge Wollenberg denied leave to so amend the complaint on June 25, 1974.

Handgards now largely bases its monopolization charge on the various patent infringement and other lawsuits brought on behalf of Ethicon by J & J house patent counsel. The claim is rooted in *Kobe, Inc. v. Dempsey Pump Co.*, 198 F.2d 416 (10th Cir. 1952), *cert. denied* 344 U.S. 837, 73 S.Ct. 46, 97 L.Ed. 651 (1952), and its progeny—particularly *Mach-Tronics, Incorporated v. Zirpoli*, 316 F.2d 820 (9th Cir. 1963), *Rex Chainbelt, Inc. v. Harco Products, Inc.*, 512 F.2d 993 (9th Cir. 1975), and *Prelin Industries, Inc. v. G & G Crafts, Inc.*, 357 F.Supp. 52 (W.D. Okl. 1972). The Ethicon suits were purportedly brought as integral ingredients of a scheme to monopolize the disposable glove market. Other alleged aspects of the monopoly plan are defendants' misuse of the Gerard patent through an attempt to enlarge its scope beyond that granted by the Patent Office; the accumulation by Ethicon of a series of patents; price-cutting; and, finally, full-line enforcing. The latter con-

tention was abandoned by plaintiff prior to the hearing on the instant motion.

Handgards also alleges that Ethicon, a wholly-owned subsidiary of J & J, conspired with Sam Porter ("Porter"), a former distributor of disposable gloves, in violation of Section 1 of the Sherman Act. Finally, Handgards raised, but has since abandoned (in its memorandum opposing the motion for summary judgment), the contention that the acquisition of the Scott Company by Ethicon violated Section 7 of the Clayton Act.

Plaintiff charges that defendants attempted to create a monopoly in the disposable glove industry by accumulating a number of the relevant patents—no matter how weak or narrow—and then instituting a series of lawsuits in order to slowly litigate the competition out of business. In *Kobe, Inc. v. Dempsey Pump Co., supra*, the plaintiff obtained a monopoly in the rodless pump industry by buying up all the relevant patents. It then instituted a patent infringement action against its sole competitor, Dempsey, without ever having examined the alleged infringing product. The company then proceeded to inform its customers about the pending litigation. The Tenth Circuit affirmed the district court's finding of an antitrust violation, but noted that the result would be otherwise "if there was nothing more than the bringing of the infringement action". 198 F.2d at 425; *Rex Chainbelt, Inc. v. Harco Products, Inc., supra* at 1003.

The *Kobe* court carefully characterized its holding as one not intended to impede "free and unrestricted access to the courts". *Id.* at 424. Later decisions have sought to resolve the tension between encouraging lawsuits brought to enforce patents—monopolies sanctioned by the Constitution to encourage aggressive competition—and discouraging persons from bringing suits on those patents in an attempt to squelch potential competitors. See, *e.g., Walker Process Equipment, Inc. v. Food Machinery & Chemical Corp., supra*; *Cole v. Hughes Tool Company*, 215 F.2d 924 (10th Cir. 1954), *cert. denied*, 348 U.S. 927, 75 S.Ct. 339, 99 L.Ed. 726 (1955); *Bolt Associates, Inc. v. Rix Industries*, 1973-1 Trade Cases, ¶ 74,474 (N.D.Cal. 1973); *Crown Machine & Tool Co. v. KVP-Sutherland Paper*

Co., 297 F.Supp. 542 (N.D. Cal. 1968), *aff'd* 409 F.2d 1307 (9th Cir. 1969); Report of the Attorney General's National Committee to Study the Antitrust Laws (1955) at 247-248.

Despite *Kobe*, there exists a good deal of confusion over the requisite intent of the initiator of a patent infringement or related action. The problem is exacerbated in relation to this case since most of the relevant precedents feature an antitrust contention raised as a defense to a challenged patent infringement action. *Walker Process Equipment, Inc. v. Food Machinery & Chemical Corp., supra*; *Kobe, Inc. v. Dempsey Pump Co., supra*; *Rex Chainbelt, Inc. v. Harco Products, Inc., supra*; *Bolt Associates, Inc. v. Rix Industries, supra.*

The law, however, is not totally unsettled. Thus, when a lawsuit or a series of lawsuits is an integral part of a scheme to monopolize an industry, the damage the defendant in the infringement action(s) incurs in defending such action(s) is recoverable under Section 4 of the Clayton Act, even if such actions were brought with a good-faith belief in the validity of the patent. *Rex Chainbelt, Inc. v. Harco Products, Inc., supra*, at 1003; *Dairy Foods Incorporated v. Dairy Maid Products Coop.*, 297 F.2d 805, 809 (7th Cir. 1961). *Kobe* serves to stress the need for an overall scheme to monopolize with the litigation serving only as one of the predatory acts.

The bringing of a series of ill-founded patent infringement actions, in bad faith, can constitute an antitrust violation in and of itself *if* such suits are initiated or pursued with an intent to monopolize a particular industry (and, of course, the other elements of a Section 2 violation are present). *Otter Tail Power Co. v. United States*, 410 U.S. 366, 93 S.Ct. 1022, 35 L.Ed.2d 359 (1973); *California Motor Transport Co. v. Trucking Unlimited*, 404 U.S. 508, 92 S.Ct. 609, 30 L.Ed.2d 642 (1972); *Kellogg Co. v. National Biscuit Co.*, 71 F.2d 662, 666 (2d Cir. 1934); *Bolt Associates, Inc. v. Rix Industries, supra.* This type of an antitrust violation is a very difficult one to prove. *See, e.g., Crown Machine & Tool Co. v. KVP-Sutherland Paper Co., supra.*

In their supplemental memorandum, defendants contend that permitting recovery on a theory requiring less than the

deliberate fraud required by *Walker Process* would serve to overrule the Supreme Court and would subject to treble damage liability anyone who "unsuccessfully tries to enforce a patent". This contention inaccurately characterizes the precedents. Plaintiff must prove that such actions were initiated or prosecuted with the requisite unlawful motive. Moreover, while the court in *Walker Process* took pains to carefully limit its holding to deliberate common law deceit, it must be remembered that *Walker Process* was aimed at preventing monopolies created by means of fraudulent patents, while the allegation here is that a monopoly was sought to be created by means of abuse of the judicial system.

Applying the above to the instant case, I find that there are genuine issues of material fact as to whether:

1. Ethicon pursued various lawsuits against Handgards and its predecessors in bad faith in an effort to maintain a monopoly in the relevant market (and whether such an attempt succeeded). Bad faith in this context is defined as knowing that the particular patent was invalid because:

    a. Gerard knew of relevant prior art more than a year before the filing of his patent application; or

    b. Gerard knew that the invention was on sale more than a year prior to the filing of his application; or

    c. the Orsini patent was invalid because material information was withheld from the patent examiner.

2. The defendant-initiated lawsuits, even if brought with a good-faith belief in the validity of the patents, were an integral part of a scheme to monopolize the plastic disposable glove market. Other segments of this purported scheme may include:

    a. Gerard's attempt to enlarge the scope of his patent. *Jack Winter, Inc. v. Koratron Company, Inc.*, 375 F.Supp. 1, 71 (N.D.Cal. 1974); *Triumph Hosiery Mills, Inc. v. Alamance Industries, Inc.*, 191 F.Supp. 652 (M.D.N.C. 1961), *aff'd* 299 F.2d 793 (4th Cir. 1962), *cert. denied*, 370 U.S. 924, 82 S. Ct. 1566, 8 L.Ed.2d 504 (1962);

b. Ethicon's accumulation of patents;

c. defendant's price-cutting activities; or

d. Ethicon causing Porter to notify the industry about pending litigation.

Several of plaintiff's contentions are unsupported in fact, and thus summary judgment as to them is granted pursuant to Rule 56(d). Handgards has failed to introduce credible evidence, to support contentions that:

1. Ethicon, as part of its alleged monopolization, conditioned its sales to Porter on his refraining from dealing in the goods of competing manufacturers;

2. Either of the defendants conspired with Porter in violation of Section 1 of the Sherman Act;

3. Defendants have perpetrated a fraud upon the courts. This contention may be read as a portion of the *Otter Tail Power Co. v. United States, supra*, allegation, and may be relevant to defendants' motive in pursuing the prior litigation; and

4. Gerard's representation to the Patent Office that he was the sole inventor was a misrepresentation. *Pointer v. Six Wheel Corporation*, 177 F.2d 153, 157 (9th Cir. 1949), *cert. denied*, 339 U.S. 911, 70 S.Ct. 570, 94 L.Ed. 1338; *Hobbs v. United States Atomic Energy Commission*, 451 F.2d 849, 864-865 (5th Cir. 1971).

Moreover, the interference proceeding between Orsini and Gerard and all that went on therein is irrelevant to this action as it is now cast.

A totally separate issue is whether J & J can be said to have conspired with its subsidiary to violate the Sherman Act. There is no dispute that J & J house patent counsel have been intimately involved in some of the previous litigation between Ethicon and plaintiff. Handgards has even raised an issue of fact as to whether such counsel "orchestrated" the previous litigation.

It is beyond question that a parent and its subsidiary, acting in concert against outsiders to the corporate family, constitute the requisite multiplicity of actors necessary to form a conspiracy in restraint of trade. *United States v. Yellow Cab Company*, 332 U.S. 218, 227, 67 S.Ct. 1560, 1565, 91 L.Ed. 2010, 2018 (1947); *Kiefer-Stewart Co. v. Joseph E. Seagram & Sons, Inc.*, 340 U.S. 211, 215, 71 S.Ct. 259, 261, 95 L.Ed. 219, 224 (1951); *Perma Life Mufflers, Inc. v. International Parts Corp.*, 392 U.S. 134, 141-142, 88 S.Ct. 1981, 1985-1986, 20 L.Ed.2d 982, 991-992 (1968); *Joseph E. Seagram & Sons, Inc. v. Hawaiian Oke & Liquors, Ltd.*, 416 F.2d 71, 82-84 (9th Cir. 1969), *cert. denied*, 396 U.S. 1062, 90 S.Ct. 752, 24 L.Ed.2d 755 (1970); *In re Penn Central Securities Litigation*, 367 F.Supp. 1158, 1166 (E.D. Pa. 1973). I am cognizant that some commentators have questioned the wisdom of a broad application of the intra-enterprise conspiracy doctrine (*e.g.*, Handler, *Through the Antitrust Looking Glass—Twenty-First Annual Antitrust Review*, 57 Calif. L. Rev. 182, 185-187 (1969); Willis and Pitofsky, *Antitrust Consequences of Using Corporate Subsidiaries*, 43 N.Y.U. L. Rev. 20 (1968)), but on the facts before me, I, at this point in the litigation, find nothing to tempt me from departing from the precedents.

In sum, then, plaintiff has raised issues of material fact as to several of its contentions. And, while the evidence in support of plaintiff's allegations is less than overwhelming as to each purported predatory act, the Court must avoid isolating each small point and thereby ignoring a potentially unlawful scheme. *Monolith Portland Midwest Co. v. Kaiser Aluminum & C. Corp.*, 407 F.2d 288, 295 n. 10 (9th Cir. 1969).

In accordance with the above, defendants' motion for summary judgment is granted in part and denied in part. Within ten days from the date of entry of this order, defendants shall serve upon the Court for *in camera* inspection the documents requested by plaintiff in its motion to compel.

Appendix G

Cases Deciding *Noerr-Pennington*/Sham Litigation Issues

1984 (14 cases through August)

Court of Appeals

Affiliated Capital Corp. v. City of Houston, 735 F.2d 1555 (5th Cir. 1984).

City of Cleveland v. The Cleveland Electric Illuminating Co., 734 F.2d 1157 (6th Cir. 1984).

Winterland Concessions Co. v. Trela, 735 F.2d 257 (7th Cir. 1984).

Handgards, Inc. v. Ethicon, Inc., Nos. 83-1575, 83-1646, (9th Cir. August 2, 1984).

Omni Resource Development Corp. v. Conoco, Inc., 739 F.2d 1412 (9th Cir. 1984).

District Courts

Western Fuels Ass'n, Inc. v. Burlington Northern R.R. Co., 102 F.R.D. 201 (D. Wy. 1984).

Caplan v. American Baby, Inc., 582 F. Supp. 869 (S.D.N.Y. 1984).

Interstate Properties v. Pyramid Co., 586 F. Supp. 1160 (S.D.N.Y. 1984).

Central Telecommunications, Inc. v. City of Jefferson City, 589 F. Supp. 85 (W.D. Mo. 1984).

Codex Corp. v. Racal-Milgo, Inc., 1984-1 Trade Cas. P65,853 (D. Mass. 1984).

Gibson v. Greater Park City Co., 1984-1 Trade Cas. P65, 978 (D. Utah 1984).

Matthew Lockary v. Paul Kayfetz, 587 F. Supp. 631 (N.D. Cal. 1984).

In re Wheat Rail Freight Rate Antitrust Litigation, 579 F. Supp. 517 (W.D. Ill. 1984).

Phonetele, Inc. v. American Telephone and Telegraph Co., et al., 1984-1 Trade Cas. (CCH) ¶ 65,921 (C.D. Cal. 1984).

1983 (30 cases)

Supreme Court

Bill Johnson's Restaurants, Inc. v. National Labor Relations Board, 103 S. Ct. 2161 (1983).

Court of Appeals

Litton Systems, Inc. v. American Telephone and Telegraph Company, 700 F.2d 785 (2nd Cir. 1983), *cert. denied*, 104 S.Ct. 984 (1984).

Suburban Restoration Co. v. ACMAT Corp., 700 F.2d 98 (2d Cir. 1983).

Coastal States Marketing, Inc. v. Hunt, 694 F.2d 1358 (5th Cir. 1983).

Rohm and Haas Co. v. Dawson Chemical Co., 722 F.2d 1556 (5th Cir. 1983).

Wilk v. American Medical Ass'n, 719 F.2d 207 (7th Cir. 1983), *cert. denied*, 104 S.Ct. 2399 (1984).

Havoco Ltd. v. Hollobow, 702 F.2d 643 (7th Cir. 1983).

MCI Communications Corp. v. American Tel. and Tel. Co., 708 F.2d 1081 (7th Cir.), *cert. denied*, 104 S.Ct. 1081 (1983).

First American Title Co. v. South Dakota Land Title Association, 714 F.2d 1437 (8th Cir. 1983), *cert. denied*, 104 S. Ct. 709 (1984).

Aydin Corp. v. Loral Corp., 718 F.2d 897 (9th Cir. 1983).

Miller Brewing Co. v. General Brewing Co., Nos. 82-4479, 82-4500 (9th Cir. June 17, 1983).

Wood v. MacDonald Group Ltd., No. 82-5563 (9th Cir. March 21, 1983).

Energy Conservation, Inc. v. Heliodyne, Inc., 698 F.2d 386 (9th Cir. 1983).

Los Angeles Memorial Coliseum Comm'n v. The City of Oakland, 717 F.2d 470 (9th Cir. 1983).

District Courts

Corsortium, Inc. v. Knoxville International Energy Exposition, 563 F. Supp. 56 (E.D. Tenn. 1983).

Unity Ventures v. County of Lake, 1984-1 Trade Cas. (CCH) ¶ 65,883 (N.D. Ill. 1983).

In Re Wheat Rail Freight Rate Antitrust Litigation, 579 F. Supp. 510 (N.D. Ill. 1983).

Campbell v. City of Chicago, 577 F. Supp. 1166 (N.D. Ill. 1983).

Columbia Pictures Indus., Inc. v. Redd Horne Inc., 568 F. Supp. 494 (W.D. Pa. 1983).

Bulkferts, Inc. v. Salatin Inc., 574 F. Supp. 6 (S.D.N.Y. 1983).

Cincinnati Riverfront Coliseum, Inc. v. City of Cincinnati, 556 F. Supp. 664 (S.D. Ohio 1983).

Llewellyn v. Crothers, 1983-1 Trade Cas. (CCH) ¶ 65,358 (D. Or. 1983).

Wheeling-Pittsburgh Steel Corp. v. Allied Tube & Conduit Corp., 573 F. Supp. 833 (N.D. Ill. 1983).

Transkentucky Transportation R.R. v. Louisville and Nashville R.R. Co., 581 F. Supp. 759 (E.D. Ky. 1983).

United States v. Central State Bank, 564 F. Supp. 1478 (W.D. Mich. 1983).

Vest v. Waring, 565 F. Supp. 674 (W.D. Ga. 1983).

U.S. Audio & Copy Corp., et al. v. Philips Business Systems, Inc., 1983-1 Trade Cas. (CCH) ¶ 65,364 (N.D. Cal. 1983).

National Cash Register Corp. v. David Arnett, 554 F. Supp. 1176 (D. Colo. 1983).

In re Masachusetts Furniture & Piano Movers Ass'n, Inc., [1979-83 Transfer Binder] Trade Reg. Rep. (CCH) P. 22, 081 (FTC 1983), *appeal pending*, (Dkt. No. 83-9137 1st Cir.)

In re Michigan State Medical Society, [1979-83 Transfer Binder] Trade Reg. Rep. (CCH) ¶ 21, 991 (FTC 1983).

1982 (32 cases)

Court of Appeals

Hospital Building Co. v. Trustees of the Rex Hospital, 691 F.2d 678 (4th Cir. 1982), *cert. denied*, 104 S.Ct. 259 (1983).

United States v. Southern Motor Carriers Conference, 672 F.2d 469 (5th Cir. 1982), *aff'd*, 702 F.2d 532 (5th Cir. 1983), *petition for cert. granted*, 104 S.Ct. 3508 (1984).

Industrial Investment Development Corp. v. Mitsui & Co., 671 F.2d 876 (5th Cir.), *rev'd on other grounds*, 103 S.Ct. 1244 (1982), *aff'd*, 704 F.2d 785 (5th Cir.), *cert. denied*, 104 S.Ct. 393 (1983).

Capitol International Airways, Inc. v. Butler International, Inc., No. 81-1004 (6th Cir. June 1, 1982).

Grip-Pak, Inc. v. Illinois Tool Works, Inc., 694 F.2d 466 (7th Cir. 1982), *cert. denied*, 103 S.Ct. 2430 (1983).

Alexander v. National Farmers Org., 687 F.2d 1173 (8th Cir. 1982), *cert. denied*, 103 S. Ct. 2108 (1983).

City of Kirkwood v. Union Electric Co., 671 F.2d 1173 (8th Cir. 1982), *cert. denied*, 103 S.Ct. 814 (1983).

Westborough Mall, Inc. v. City of Cape Gerrardea, 693 F.2d 733 (8th Cir. 1982) *cert. denied*, 103 S.Ct. 2122 (1983).

Acquarian Products, Inc. v. DynaClean, Inc., No. 80-5925 (9th Cir. April 9, 1982).

Clipper Exxpress v. Rocky Mountain Motor Tariff Bureau, Inc., 674 F.2d 1252 (9th Cir. 1982).

Coca-Cola Co. v. Overland, Inc., 692 F.2d 1250 (9th Cir. 1982).

Forro Precision, Inc. v. Int'l Business Machines Corp., 673 F.2d 1045 (9th Cir. 1982).

Anti-Monopoly, Inc. v. General Mills, Inc., 1982-2 Trade Cas. (CCH) ¶ 64, 916 (9th Cir. 1982).

Phoenix Baptist Hospital & Medical Center v. Samaritan Health Services, No. 81-5848, *summarily reported at* 688 F.2d 847 (9th Cir. 1982), *cert. denied*, 103 S.Ct. 3114 (1983).

Valerio v. Boise Cascade Corp. 645 F.2d 699 (9th Cir.) *cert. denied*, 454 U.S. 1126 (1981).

In re Airport Car Rental Antitrust Litigation, 693 F.2d 84 (9th Cir. 1982), *cert. denied*, 103 S.Ct. 3114 (1983).

Hydro-Tech Corp. v. Sundstrand Corp., 673 F.2d 1171 (10th Cir. 1982).

Oetiker v. Juridwerke GMBH, 671 F.2d 596 (D.C. Cir. 1982).

District Courts

Invictus Records, Inc. v. American Broadcasting Companies, 98 F.R.D. 419 (E.D. Mich. 1982).

In re New Mexico Natural Gas Antitrust Litigation, 1982-1 Trade Cas. P.64, 685 (D.N.M. 1982).

Picante, Inc. v. Jimenez Food Products, Inc., 218 U.S.P.Q. 510 (W.D. Tex. 1982).

Hopkinsville Cable TV, Inc. v. Pennroyal Cablevision, Inc., 562 F.Supp. 543 (W.D. Ky. 1982).

Gold Cross Ambulance & Transuer v. City of Kansas City, 538 F.Supp. 956 (W.D. Mo. 1982), *aff'd on other grounds*, 702 F.2d 1005 (8th Cir. 1983).

Hopkinsville Cable TV, Inc. v. Pennroyal Cablevision, Inc., 562 F. Supp. 543 (S.D. Ohio 1982).

Impro Products, Inc. v. John B. Herrick, 1982-2 Trade Cas. P64,906 (S.D. Iowa 1982).

GCA Corp. v. Raymond Chance, 217 U.S.P.Q. 718 (N.D. Cal. 1982).

Danny Ray Grant v. Erie Ins. Exchange, 542 F. Supp. 457 (M.D. Pa. 1982).

Horsemen's Benevolent & Protective Ass'n, Inc. v. Pennsylvania Horse Racing Comm'n, 530 F. Supp. 1098 (E.D. Pa), *aff'd without opinion*, 688 F.2d 821 (3d Cir. 1982).

First American Title Co. v. South Dakota Land Title Ass'n, 541 F. Supp. 1147 (D.S.D. 1982).

Sunergy Communications, Inc. v. Aristek Properties, Ltd., 535 F. Supp. 1327 (D. Colo. 1982).

Ross v. Bremer, 1982-2 Trade Cas. (CCH) ¶ 64,746 (W.D. Wash. 1982).

Baxter Travenol Laboratories, Inc., v. William E. LeMay, 536 F. Supp. 247 (S.D. Ohio 1982).

1981 (19 cases)

Court of Appeals

Landmarks Holding Corp., v. W. Bermant, 664 F.2d 891 (2d Cir. 1981).

Ad Visor, Inc. v. Pacific Tel. and Tel. Company, 640 F.2d 1107 (9th Cir. 1981).

Federal Prescription Service, Inc. v. American Pharmaceutical Ass'n, 663 F.2d 253 (D.C. Cir. 1981), *cert. denied*, 455 U.S. 928 (1982).

District Court

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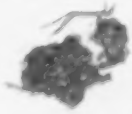

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Statutory Appendix

15 U.S.C. § 2. Monopolizing trade a felony; penalty

Every person who shall monopolize, or attempt to monopolize, or combine or conspire with any other person or persons, to monopolize any part of the trade or commerce among the several States, or with foreign nations, shall be deemed guilty of a felony, and, on conviction thereof, shall be punished by fine not exceeding one million dollars if a corporation, or if any other person, one hundred thousand dollars, or by imprisonment not exceeding three years or by both said punishments, in the discretion of the court.

15 U.S.C. § 15. Suits by persons injured; amount of recovery

Any person who shall be injured in his business or property by reason of anything forbidden in the antitrust laws may sue therefor in any district court of the United States in the district in which the defendant resides or is found or has an agent, without respect to the amount in controversy, and shall recover threefold the damages by him sustained, and the cost of suit, including a reasonable attorney's fee.

35 U.S.C. § 102. Conditions for patentability; novelty and loss of right to patent

(b) the invention was patented or described in a printed publication in this or a foreign country or in public use or on sale in this country, more than one year prior to the date of the application for patent in the United States, or

* * *

(g) before the applicant's invention thereof the invention was made in this country by another who had not abandoned, suppressed, or concealed it. In determining priority of invention there shall be considered not only the respective dates of conception and reduction to practice of the invention, but also the reasonable diligence of one who was first to conceive and last to reduce to practice, from a time prior to conception by the other.

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No. 84-830

In the Supreme Court

OF THE

United States

OCTOBER TERM, 1984

ETHICON, INC.,
Petitioner,
VS.
HANDGARDS, INC.,
Respondent.

BRIEF OF RESPONDENT HANDGARDS, INC., IN OPPOSITION TO PETITION FOR WRIT OF CERTIORARI

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QUESTIONS PRESENTED

1. Whether the "sham exception" to the *Noerr-Pennington* doctrine applies where a jury has found by clear and convincing evidence (and both courts below agree) that petitioner deliberately brought a lawsuit to enforce a patent it knew to be invalid, coupled with one or more predatory or anticompetitive acts in furtherance of an attempt to monopolize the relevant market.

2. Whether the District Court and the Court of Appeals properly applied the substantial evidence test to the jury's findings where petitioner itself asserted such a test below, and each court independently reviewed the evidence even under the test now urged for the first time by petitioner.

3. Whether jurisdiction on appeal properly lay in the Ninth Circuit Court of Appeals where petitioner itself urged jurisdiction on that court and where the case arose entirely under the Clayton and Sherman Acts.

STATEMENT REQUIRED BY RULE 28.1

Respondent Handgards, Inc., has no parents, subsidiaries or affiliates.

TABLE OF CONTENTS

	Page
Questions Presented	i
Statement Required by Rule 28.1	ii
I	
Statement of the Case	1
A. History of the Litigation	1
B. Operative Facts	3
II	
Reasons For Denying the Writ	6
A. Ethicon's Petition is an Attack on the Jury Verdict and is Without Merit	6
B. The Prosecution of a Single Lawsuit in Bad Faith Falls Within the Sham Exception	9
C. The Ninth Circuit Applied the Appropriate Standard of Review	11
D. The Ninth Circuit Found All of the Necessary Elements of a Section 2 Attempt to Monopolize Claim	11
E. Jurisdiction Properly Lay in the Ninth Circuit Court of Appeals	11
III	
The Decisions in Handgards I and II Apply This Court's Rulings on the "Sham Exception" to Noerr-Pennington and There Is No Confusion or Conflict Among the Circuits	12
IV	
Ethicon's Alternative Argument That It Was Denied An Independent Evaluation of the Evidence is Without Merit	18
A. Ethicon Did Not Request, and Has Waived, a De Novo Review Standard Applied to the Bad Faith Finding	18

Table of Contents

Page

B. Ethicon Itself Proposed the Substantial Evidence Test to That Court 19

C. In Any Event, The Courts Below Independently Reviewed the Evidence 20

V

The Decision Below Creates No New Per Se Monopolization Doctrine and is in Harmony With This Court's Monopoly Decisions 21

VI

Ethicon Itself Urged Jurisdiction Upon the Ninth Circuit, and in Any Event Jurisdiction Properly Lay With That Court 24

Conclusion 26

TABLE OF AUTHORITIES

Cases

Page

Atari, Inc. v. JSA & Co. Group, Inc., Appeal No. 84-742 (CAFC) Appeal denied Nov. 8, 1984, ____ F.2d ____ (CAFC, 1984) 12, 26

American Tobacco Co. v. United States, 328 U.S. 781 (1946) 24

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Aydin Corp. v. Loral Corp., 718 F.2d 897 (9th Cir. 1983) 16

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California Computer Products v. IBM, 613 F.2d 727 (9th Cir. 1979) 19

California Motor Transport Co. v. Trucking Unlimited, 404 U.S. 508 (1972) 15

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Delta Air Lines, Inc. v. August, 450 U.S. 346 (1981) 20

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Table of Authorities

Cases

Page

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First National Bank of Omaha v. Marquette National Bank, 482 F.Supp. 514 (D. Minn. 1979) aff'd 636 F.2d 195 (8th Cir. 1980), cert. denied, 450 U.S. 1042 (1981) 15

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Handgards, Inc. v. Ethicon, Inc., 601 F.2d 993 ..... 21, 22

Hoover v. Ronwin, 104 S.Ct. 1989 (1984) 20

Hydro-Tech Corp. v. Sundstrand Corp., 673 F.2d 1171 (10th Cir. 1982) 16, 17

J. I. Case Co. v. Borak, 377 U.S. 426 (1964) 20

Koratron Co. v. Deering Milliken, Inc.. 418 F.2d 1314 (9th Cir. 1969), cert. denied, 398 U.S. 909 (1970) 26

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Messenger v. Anderson, 225 U.S. 346 (1912) 25

Michel v. Louisiana, 350 U.S. 91 (1955) 19

Table of Authorities

Cases

	Page
Miree v. De Kalb County Georgia, 433 U.S. 25 (1977)	21
Neely v. Martin K. Eby Construction Co., 386 U.S. 317 (1967)	20
New Marshall Engine Co. v. Marshall Engine Co., 223 U.S. 473 (1912)	12, 26
Omni Resource Development Corp. v. Conoco, Inc., 739 F.2d 1412 (9th Cir. 1984)	15, 16, 23
Pacific Stationery & Printing Co. v. Northwest Wholesale Stationery, 715 F.2d 1393 (9th Cir. 1983), cert. granted, 53 U.S.L.W. 3235 (U.S. Oct. 1, 1984) (No. 1368)	23, 24
State of California v. Taylor, 353 U.S. 553 (1957)	20
Swift & Co. v. United States, 196 U.S. 375 (1905)	24
United States v. Ortiz, 422 U.S. 891 (1975)	20
Vendo Co. v. Lektro-Vend Corp., 433 U.S. 623 (1977)	14
Walker Process Equipment, Inc. v. Food Machinery & Chemical Corp., 382 U.S. 172 (1965)	10, 14, 17, 22

Miscellaneous

S. Rep. No. 275, 97th Cong., 1st Sess. 19, 20 (1981), reprinted in U.S. Code Cong. & Ad. News No. 2 (Apr. 1982)	25, 26

Statutes

English Statute of Monopolies of 1623, 21 Jac. I, ch. 3, Sec. IV	14
Sherman Act, Sec. 2	6, 11, 14, 15, 21, 22, 23
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BRIEF OF RESPONDENT HANDGARDS, INC., IN OPPOSITION TO PETITION FOR WRIT OF CERTIORARI

I

STATEMENT OF THE CASE

A. History of the Litigation

In 1962 Ethicon sued Handgards for infringement of the Gerard patent.[1] Applying a "beyond a reasonable doubt standard" the trial judge found the patent invalid based on

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[1]In 1964, Ethicon added a claim for infringement of the Orsini patent, but that claim was abandoned on the second day of the patent trial and Handgards was given a covenant not to sue.

Shabram's prior public use. The Court of Appeals for the Ninth Circuit affirmed, 432 F.2d 438 (9th Cir. 1970).[2] This Court denied certiorari, 402 U.S. 929 (1971).

The subsequent antitrust suit charged bad faith in the prosecution and appeal of the Gerard patent alleging that Ethicon knew the patent to be invalid and used it in the protection of its 90% market share, as part of a calculated effort to destroy or neutralize its only hair care glove competitor by frightening away its customers and disrupting its business and financial plans.

In 1976 Judge William O. Orrick presided over the first jury trial which resulted in a verdict for Handgards. Satisfied that the evidence permitted the jury to find that Ethicon knew the patent was invalid, Judge Orrick denied all post-trial motions. 1976-2 Trade Cas. ¶ 61,138 (N.D. Cal. 1976).

The Ninth Circuit reversed, 601 F.2d 986 (9th Cir. 1979), ordering a new trial in which it required that the bad faith necessary to overcome the presumption of good faith prosecution of a prior patent case must be established by "clear and convincing" evidence. The Ninth Circuit envisioned this presumption, plus the higher standard of proof, as creating a "proper barrier" to permit patentees to test the validity of their patents in court, and to "provide reasonable protection for the honest patentee." App. 54a. This Court

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[2]To support its claim of good faith prosecution, Ethicon emphasizes that the Ninth Circuit's opinion stated that the bifurcated issue of Shabram's prior public use "could have been decided either way." This statement provides no support for two reasons: (1) it merely means that applying a "beyond a reasonable doubt standard", the decision based on credibility of witnesses would not be clearly erroneous either way, and (2) it does not relate in any way to the unlitigated bases of invalidity known to Ethicon: priority of invention and "on sale."

denied Ethicon's petition for writ of certiorari. 444 U.S. 1025 (1980).

In 1982, Judge Stanley A. Weigel presided over the second jury trial in which he, in the language of the Ninth Circuit, "properly adhered to our decision in *Handgards I*." App. 32a. The second jury also found that Ethicon had prosecuted the Gerard patent infringement suit knowing that the patent was invalid and with the purpose of monopolizing the hair care plastic glove market. It assessed damages consisting of the attorneys' fees paid to defend the Gerard infringement suit and the profits lost because of Ethicon's unlawful use of the invalid patent in the marketplace. Judge Weigel, satisfied that these findings were supported by evidence meeting the clear and convincing standard, denied all post-trial motions. 552 F.Supp. 820 (N.D. Cal. 1982). App. 63a.

The Ninth Circuit, after meticulous review of the evidence, unanimously affirmed the judgment. 743 F.2d 1282 (9th Cir. 1984). Two of the Ninth Circuit judges (Judges Sneed and Kennedy) on the second appeal panel were also on the first appeal panel, and Judge Sneed wrote both opinions.

Accordingly, two experienced district judges and three appeals court judges were satisfied, after a review of the record as a whole, that Ethicon had prosecuted the Gerard patent in bad faith on the basis of "knowingly falsified" facts and with knowledge that the patent was invalid. App. 14a.

B. Operative Facts

This case rests on unique and compelling evidence. The undisputed evidence shows that the patentee, Gerard, told his patent lawyer, in a letter responding to questions relat-

ing to conception and reduction to practice, that his date of invention was May 24, 1957, 8 months *later* than the date given by Ethicon in interrogatory answers in the patent litigation, and 10 months after the date he swore to in an interference proceeding in the Patent Office. Gerard repeated the later date, with detailed explanation, in his deposition taken in a trade secret case, terminated before he sold his patent rights to petitioner. This crucial conflict between Gerard's earlier writing and sworn declarations, on the one hand, and petitioner's false interrogatory answers on the other, was — and is — devastating to Ethicon. Ethicon and its lawyers during pretrial discovery in the patent case learned that Shabram and not Gerard was the first inventor and that the patent was therefore invalid under 35 U.S.C. § 102(g).

To keep its lawsuit alive, Ethicon *fabricated* false answers to interrogatories claiming an invention date earlier than Shabram. The motive for maintaining the lawsuit was, in part, demonstrated by Gerard's letter circulated throughout the marketplace referring to the suit and stating that Ethicon intended to stop anyone from manufacturing plastic gloves. The Ninth Circuit characterized this letter as the "most damaging" evidence of Ethicon's specific intent to monopolize. App. 18a.

These same interrogatories in the patent case sought facts regarding Gerard's first sale of a glove made by his invention. Ethicon filed answers which are inconsistent with the facts told under oath by Gerard in the trade secret deposition and the invention dates claimed by Ethicon in the same set of interrogatory answers. Truthful answers would quickly have demonstrated the invalidity of the patent under 35 U.S. § 102(b).

Finally, "Handgards presented a former employee of Ethicon, Mr. Babb, who testified that Gerard, an employee of Ethicon, had told him that the Gerard patent was invalid ***" App. 12a-13a.

At trial, Gerard's attempt to reconcile the conflicting dates exposed him as hopelessly incredible and provided clear and convincing evidence of petitioner's bad faith. Ethicon's outside patent lawyers also failed at the trial to explain the conflicting dates in the interrogatory answers.

But, instead of recognizing the truth — that the Gerard patent was invalid — and withdrawing the suit, Ethicon pressed on through trial, appeal and petition for certiorari. And it did more. Knowing that his patent was invalid, Gerard wrote the aforementioned letter dated March 16, 1965 to a major purchaser of Handgards gloves who was then contemplating a joint venture with Handgards which would have assured Handgards of 50% of the home hair care glove market. The letter, copies of which were widely disseminated in the industry, threatened suit under the Gerard patent, causing the termination of Handgards' sales to that customer and killing the proposed joint venture. Moreover, it also prevented Handgards from raising outside capital necessary to remain technologically current. Finally, Ethicon repeatedly during the patent lawsuit tried to force Handgards into signing an anti-competitive, restrictive and confiscatory license agreement (App. 18a) which would necessarily have limited Handgards to less than 5% of the U.S. market and excluded it from foreign markets, thereby sealing its fate permanently as an impotent competitor.[3]

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[3]Using a single suit, even if filed with probable cause, to obtain through negotiation an ulterior or collateral objective is abuse of process at common law, Prosser & Keeton, Torts (5th Ed., 1984) 898, and thus a predatory act in the antitrust sense when done for

Ethicon's deliberate pattern of anti-competitive conduct caused Handgards serious "antitrust injury" in the form of lost sales and profits over the period 1964-1973.

II

REASONS FOR DENYING THE WRIT

A. Ethicon's Petition is an Attack on the Jury Verdict and is Without Merit

We emphasize that this case rests on a unique set of facts. Ethicon, in its petition, has seriously misstated many facts and circumstances. For example, it states that the jury which found against it was allowed to infer, speculate and second-guess as to bad faith from the mere relitigation of a prior claim and that the finding of bad faith in turn was allowed to support a virtual *per se* violation of the antitrust laws.[4] These statements have no resemblance whatever to what happened in this lawsuit.

In the course of detailed and careful instructions, the trial judge told the jury that in order for it to find against

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an anticompetitive purpose. *Grip-Pak, Inc.* v. *Illinois Tool Works, Inc.*, 694 F.2d 466 (7th Cir., 1982), *cert. denied*, 103 S.Ct. 2430 (1983).

[4]Ethicon states, for example, that under the opinion below, " 'bad faith' can be established simply by relitigating the merits of a prior action" (Pet. at 7), "••• bad faith may be inferred merely from the evidence in the prior suit, and ••• this bad faith finding results in a virtual *per se* violation of section 2 of the Sherman Act •••" (*id.*), "••• a single suit may be determined to be a sham merely by relitigating the merits to establish whether the plaintiff thought he would lose" (*id.* at 10), "••• a subsequent antitrust jury" was allowed "to infer from that same contrary evidence or legal authority that the litigant 'knew' he would lose" (*id.*), "••• 'bad faith' thus boils down to a trial lawyer's judgment that one patent, and not the other, was Ethicon's best chance to win the lawsuit" (*id.* at 11),

Ethicon, Handgards had to prove "by clear and convincing evidence" that the Gerard patent was prosecuted "in bad faith". Trial Transcript (T.T.) 2951. Under the "bad faith theory", the jury was instructed that the issue was whether Ethicon knew that the Gerard patent was invalid, as Handgards contended, or whether the litigation was "prosecuted in good faith with the belief that the Gerard patent was valid and enforceable, as [Ethicon] contends. *** [M]oreover, you must decide whether the suits, if brought or maintained in bad faith, were brought for the purpose of eliminating Handgards as a competitor in the relevant market". T.T. 2977. If Ethicon had "a specific intent to monopolize", Handgards still had to establish "by a preponderance of the evidence that [Ethicon] engaged in one or more predatory or anti-competitive acts in furtherance of that intent" and that "there was a dangerous probability that [Ethicon] would succeed in monopolization". T.T. 2997.

There is a "legal presumption", the jury was told, "that Ethicon brought the [Gerard] patent infringement suit in good faith", and this presumption could be overcome only by "clear and convincing evidence", T.T. 2977-2978, which was specifically defined. T.T. 2978. The jury had to determine whether Ethicon "brought or prosecuted the suit with knowledge that the patent it sued upon was invalid"—whether its agents, officers and directors "were in possession of facts which prevented them from holding a good-

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the jury engaged in "second-guessing" the litigants (*id.*), the jury was allowed to make "inferences based solely on hypothetical patent defenses" (*id.* at 12), and the significance of the opinion below is that "no business can ever sue a competitor, at least on a patent, without the threat that a subsequent antitrust jury will impose treble damage liability wherever there is *any* evidence from which a jury could subsequently speculate as to bad faith" (*id.*; emphasis in original).

faith belief that the Gerard patent was valid and infringed". T.T. 2979.

The jury was specifically told that "Ethicon was entitled to rely upon the advice of its outside counsel", provided that all material facts were disclosed to him and that "the advice was sought in good faith and acted upon honestly". T.T. 2980. Handgards had to establish by clear and convincing evidence that Ethicon knew of "a prior public use or a prior invention which would have invalidated the patent" or knew that the product made by Gerard's process "was on sale *** more than a year prior to the filing" of the application. T.T. 2981. The fact that the patent had been adjudged invalid was "not sufficient to show that the infringement suit was brought in bad faith" — Ethicon had to have initiated or pursued the suit "knowing the patent was invalid". T.T. 2981. The bringing or maintaining of "one or more illfounded patent infringement actions in bad faith" constituted an antitrust violation only if the litigation involved "an intent to monopolize a particular market or industry", and bad faith was *again* defined as "knowing either at the time the lawsuit is filed or during its pendency that the particular patent sued upon is invalid". T.T. 2982.

Even if the jury found that the delivery or the taking of an order in May 1957 constituted a public use or sale, it *still* had to consider whether Ethicon held "a good faith belief that there was no public use or on sale more than one year prior to the date of the filing of the Gerard application". For example, if Ethicon had "a good faith belief" that the transactions "were experimental", or "a good faith belief" that the law was "different than the law as I have stated it", and thus "a good faith belief" that there was no such public use or sale, Handgards had not proven its case. T.T. 2985.

Handgards, in fact, had to prove the Shabram prior public use "beyond a reasonable doubt", and "Ethicon was entitled to prosecute suit on the Gerard patent *if it could in good faith entertain a reasonable doubt* as to whether or not Handgards could prove an alleged prior public use before June 2, 1957, *"beyond a reasonable doubt"*. T.T. 2986, emphasis added. Once again the jury was told that bad faith meant *knowing* that the patent sued upon was invalid, and further that "[t]he prosecution of a patent infringement suit in good faith, though the patent was held invalid, does not, standing alone, violate the antitrust laws". T.T. 2988. The jury was even told: "[t]he mere fact, if it is established, that Ethicon's answers [to interrogatories] were false will not support a finding of bad faith"; instead, for this issue even to have relevance, Handgards had to show that Ethicon "intentionally gave false interrogatory answers in an attempt to deceive" Handgards or was "guilty of gross negligence or recklessness in misrepresenting the truth". T.T. 2991.

Thus, this jury was not permitted, under the instructions, to make the improper inferences suggested by Ethicon, to speculate about anything or to second-guess anyone. The burden upon Handgards was a heavy one to prove, based upon specific facts supported by evidence, that Ethicon knew precisely what it was doing when it pressed a totally baseless lawsuit. And even this was not enough. Its bad faith had to be part of a specific intent to monopolize accompanied by one or more predatory or anticompetitive acts.

B. The Prosecution of a Single Lawsuit in Bad Faith Falls Within the Sham Exception

The Ninth Circuit decisions in this litigation have not had, and do not threaten to have, a chilling effect upon patentees' prosecution in good faith of their legitimate

patent rights. Arguing that a single bad faith infringement suit should be completely immune from antitrust scrutiny, Ethicon ignores the Ninth Circuit's direct determination that bad faith patent litigation "contribute[s] nothing to the furtherance of the policies of either the patent law or the antitrust law." App. 48a.

The Ninth Circuit fashioned a scholarly and analytical compromise between these conflicting policies. In doing so, it erected barriers, consisting of the requirement that proof of bad faith be established by clear and convincing evidence (intentional falsehood or a knowingly frivolous claim) and that plaintiff be required to overcome a presumption of good faith. These formidable obstacles serve to protect the honest patentee who genuinely seeks the vindication of his private interest in pursuit of his patent. And the mere fact that an honest patentee loses will not, standing alone, create antitrust liability. But at the same time, the Ninth Circuit rule permits, in those rare and exceptional cases such as this, a remedy for the victim of patent litigation which should not have been pursued.

The Ninth Circuit decisions in this litigation have carefully followed the requirements of this Court's *Noerr-Pennington* doctrine with its "sham" exception.

Moreover, there is no conflict or confusion in the lower courts concerning *Noerr-Pennington* or the sham exception. Petitioner repeatedly states that there is doubt whether a single suit, even though it is conceded to be in bad faith, would lose *Noerr-Pennington* immunity. Yet there is no decision which allows immunity to a single suit brought in bad faith such as this one, and the rationale of this Court's decision in *Walker Process Equipment, Inc. v. Food Machinery & Chemical Corp.*, 382 U.S. 172 (1965), fully supports the loss of *Noerr-Pennington* immunity.

C. The Ninth Circuit Applied the Appropriate Standard of Review

Ethicon's argument based on *Bose v. Consumers Union of U.S., Inc.*, 104 S.Ct. 1949 (1984), is without merit.

In presenting this case on appeal to the Ninth Circuit, Ethicon told that court that the standard of review was "substantial evidence to support the jury's verdict" and the Ninth Circuit adopted Ethicon's proposed standard. App. 9a.

Moreover, the Ninth Circuit did independently review the record on the key issue of Ethicon's bad faith in order to assure itself that the bad faith had been shown by "clear and convincing evidence." App. 17a and 32a.

D. The Ninth Circuit Found All of the Necessary Elements of a Section 2 Attempt to Monopolize Claim

The Claim that the Ninth Circuit found a per se violation of Section 2 is utterly false. Bad faith litigation intended to destroy competition is predatory conduct and when coupled with the other elements of the offense constitutes an antitrust violation. Those other elements were required by the Court of Appeals to be proven. (App. 48a), and the court carefully reviewed the evidence to insure that they were proven.

E. Jurisdiction Properly Lay in the Ninth Circuit Court of Appeals

The Ninth Circuit has jurisdiction to decide this appeal, as Ethicon itself asserted to the Court of Appeals in *Handgards II*. App. 5a. Moreover, the plain fact is that this case did not arise under 28 U.S.C. § 1338(a) as required for jurisdiction of the Court of Appeals for the Federal Circuit, and did not litigate the issue of patent validity. Accordingly, the CAFC has no jurisdiction over this appeal.

The mere fact that questions of patent law arose in the course of the controversy does not convert the case "to one arising under" the patent laws. *New Marshall Engine Co. v. Marshall Engine Co.*, 223 U.S. 473 (1912). See also *Atari, Inc. v. JSA & Co. Group, Inc.*, Appeal No. 84-742 (CAFC), appeal denied Nov. 8, 1984, (CAFC, 1984).

III

THE DECISIONS IN HANDGARDS I AND II APPLY THIS COURT'S RULINGS ON THE "SHAM EXCEPTION" TO NOERR-PENNINGTON AND THERE IS NO CONFUSION OR CONFLICT AMONG THE CIRCUITS

This Court's decision in *Bill Johnson's Restaurants v. N.L.R.B.*, 103 S.Ct. 2161 (1983), has clearly delineated the scope of the "sham exception" in the context of litigation brought in bad faith. The Court stated:

> Although it is not unlawful under the Act to prosecute a meritorious action, the same is not true of suits based on insubstantial claims — suits that lack, to use the term coined by the Board, a "reasonable basis." Such suits are not within the scope of First Amendment protection:
>
> The first amendment interests involved in private litigation — compensation for violated rights and interests, the psychological benefits of vindication, public airing of disputed facts — are not advanced when the litigation is based on intentional falsehoods or on knowingly frivolous claims. Furthermore, since sham litigation by definition does not involve a bona fide grievance, it does not come within the first amendment right to petition.
>
> Just as false statements are not immunized by the First Amendment right to freedom of speech, see

> *Herbert v. Lando*, 441 U.S. 153, 171, 99 S.Ct. 1635, 1646, 60 L.Ed.2d 115 (1979); *Gertz v. Robert Welch, Inc.*, 418 U.S. 323, 340, 94 S.Ct. 2997, 3007, 41 L.Ed.2d 789 (1974), baseless litigation is not immunized by the First Amendment right to petition.
>
> * * *
>
> Considerations analogous to these led us in the antitrust context to adopt the "mere sham" exception in *California Motor Transport, supra.* [103 S.Ct. at 2170-71.]

Ethicon admits that the "sham exception" is properly invoked "where the challenged lawsuit is coupled with other anticompetitive conduct designed to interfere directly and unlawfully with the business of a competitor." Pet. p. 8. That is exactly the case here.

In *Handgards II*, the court found "substantial evidence" supporting Handgards' contention that:

> *** Ethicon took steps to eliminate competition from the relevant market. The most damaging evidence introduced was a letter written by Gerard, an Ethicon employee, to Sam Porter, a major distributor and potential joint venturer of hair care gloves. This letter asserted the validity of Ethicon's Gerard patent and the company's intent to enforce the patent. After the letter was received, Porter stopped purchasing gloves from Handgard and refused to negotiate any joint venture with Handgards. Ethicon also sent a similar letter to several other purchasers of hair care gloves. *This evidence along with the prosecution of a bad faith patent suit provides a sufficient basis for a jury's finding of specific intent to monopolize.* Ethicon's argument that its repeated license offers negated this intent was presented to and rejected by the jury. The mere existence of license offers does not require that we

> ignore the strong evidence presented by Handgards which supports the jury's finding. [App. 18a; emphasis added; footnote omitted].

There is no basis, as Ethicon seems to assert, for holding that a single bad faith predatory infringement suit, when coupled with all the other elements of a Sherman Act Section 2 violation, would not constitute "sham" litigation. This Court settled the question insofar as infringement suits are concerned in *Walker Process Equipment, Inc. v. Food Machinery and Chemical Corp.*, 382 U.S. 172, (1965). There a patentee brought a single infringement suit to enforce a patent obtained by fraud. Defendant filed an antitrust counterclaim for this conduct, and this Court sustained the legal validity of such a claim if supported by proof of the other elements of a violation. The case "stands for the proposition that pressing claims known to be without foundation for the purpose of stifling competition is a violation of Section 2 of the Sherman Act." Bork, *The Antitrust Paradox* 353 (1978).[5]

And, the point is made even more emphatically in *Bill Johnson's Restaurants, supra*, 103 S.Ct. at p. 2171, where the Court refers to "*a* baseless lawsuit" in the context of bad faith litigation. (Emphasis added).

Moreover, a close reading of this Court's decision in *Vendo Co. v. Lektro-Vend Corp.*, 433 U.S. 623 (1977), supports the applicability of the sham exception to a single lawsuit. In a footnote, the plurality opinion implied that the filing of a single lawsuit might provide a sufficient basis for invoking the sham exception (*id.* at 635-636 n.6) and the dissent expressly adopted that position. *Id.* at 661-662

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[5]Precedent for a treble damage remedy against enforcement of an illegally obtained patent goes back to the English Statute of Monopolies of 1623, 21 Jac. I, c. 3, section IV.

(Stevens, J., dissenting). Lower courts are in agreement on the single "sham" suit question.[6]

If the plaintiff's motives are in doubt where the question of a "sham" is whether defendants were deliberately trying to bar access to an administrative agency, a multiplicity of suits may be more persuasive, as in *California Motor Transport Co. v. Trucking Unlimited*, 404 U.S. 508 (1972). But where bad faith is shown by extrinsic evidence, coupled with the other elements of Section 2 violation as here, it would defeat both antitrust policy and justice to say that the malefactor should receive a pass until it becomes a recidivist and does it again to some other victim. The first victim would thus be left remediless. Where only one competitor exists — as is the case here — a single lawsuit would accomplish the monopolistic goals.

The decisions of the Circuits are uniform that baseless litigation brought for an anticompetitive purpose falls within the "sham exception" doctrine. The Second Circuit, in *Landmarks Holding Corp. v. W. Bermant*, 664 F.2d 891, 896-897 (2d Cir. 1981), held that the "sham exception" applies when the litigation is brought "solely to harass and hinder a competitor." *Accord: Litton Systems, Inc. v. American Telephone & Telegraph Co.*, 700 F.2d 785 (2d Cir. 1983), *cert. denied*, 104 S.Ct. 984 (1984).

The Fifth Circuit, in *Associated Radio Service Co. v. Page Airways, Inc.*, 624 F.2d 1342, 1358 (5th Cir. 1980),

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[6]*See, e.g., Omni Resource Development Corp.* v. *Conoco, Inc.*, 739 F.2d 1412, 1414 (9th Cir. 1984); *MCI Communications Corp.* v. *American Telephone & Telegraph Co.*, 708 F.2d 1081, 1155 (7th Cir.), *cert. denied*, 104 S. Ct. 234 (1983); *Feminist Women's Health Center* v. *Mohammad*, 586 F.2d 530, 543 n.6 (5th Cir. 1978), *cert. denied*, 444 U.S. 924 (1979); *First National Bank of Omaha* v. *Marquette National Bank*, 482 F. Supp. 514, 519-521 (D. Minn. 1979), *aff'd*, 636 F.2d 195 (8th Cir. 1980), *cert. denied*, 450 U.S. 1042 (1981).

cert. denied, 450 U.S. 1030 (1981), held that a complaint comes within the "sham exception" when it alleges that the suit was brought "not for a proper purpose, but for the purpose of achieving an unlawful objective."

The Seventh Circuit is in accord. Judge Posner, writing for that Circuit in *Grip-Pak, Inc. v. Illinois Tool Works, Inc.*, 694 F.2d 466 (7th Cir. 1982), *cert. denied*, 103 S.Ct. 2430 (1983), held that even litigation brought with probable cause but with the "purpose *** not to win a favorable judgment against a competitor but to harass him and to deter others, by the process itself — regardless of outcome" would violate the antitrust laws. *Accord*: *MCI Communications Corp. v. American Telephone & Telegraph Co.*, 708 F.2d 1081 (7th Cir. 1983), *cert. denied*, 104 S.Ct. 234 (1983).

A line of Ninth Circuit decisions, including *Handgards I*, is in accord with that proposition: *Forro Precision Inc. v. IBM*, 673 F.2d 1045, 1060-61 (9th Cir. 1982), *cert. denied*, 103 S.Ct. 1234 (1983). *Clipper Exxpress v. Rocky Mountain Motor Tariff Bureau, Inc.*, 690 F.2d 1240, 1254 (9th Cir. 1982), *cert. denied*, 459 U.S. 1227 (1983); *Energy Conservation, Inc. v. Heliodyne, Inc.*, 698 F.2d 386 (9th Cir. 1983); *Aydin Corp. v. Loral Corp.*, 718 F.2d 897 (9th Cir. 1983); and *Omni Resources Development Corp. v. Conoco, Inc.*, 739 F.2d 1412 (9th Cir. 1984).

Only the Tenth Circuit decision in *Hydro-Tech Corp. v. Sundstrand Corp.*, 673 F.2d 1171, 1175 (10th Cir. 1982), appears to require something more than the sham litigation itself. In that case, the court stated: "A sham action is one which tends to be abusive of judicial process and, therefore, is something more than an action instituted without probable cause." *Id.* at 1177. But, even if that were the controlling principle of law we would, as demonstrated earlier, satisfy a more stringent test. This would then be an inappropriate case in which to review that issue. Moreover, because *Hydro-Tech* was decided a year before this

Court's decision in *Bill Johnsons' Restaurants*, it is apparent that to the extent it deviates from the otherwise uniform decisions of the circuits it is of dubious validity. Finally, the passage quoted above is dictum because the court found that nowhere in its complaint had the plaintiff alleged that the first suit had been a "sham" *Id.* at 1175. The court further noted that the business dealings between the two defendants "tend themselves to negate the proposition" that the prior suit was a sham. *Id.* The court was careful to note that if the plaintiff had alleged that the first suit had been "vexatious" or "spurious," the result might have been different. *Id.* at 1177.

There is, therefore, no confusion among the lower courts nor is there any significant disparity of opinion with respect to the scope of the "sham exception."

The commentators are also in accord. Judge Bork in "The Antitrust Paradox," after discussing *Walker Process Equipment, Inc. v. Food Machinery & Chemical Corp., supra*, stated:

> Antitrust sanctions can hardly be applied to one who litigates his patent in good faith, even though the patent is ultimately held to be invalid. That would chill legitimate patent litigation.
>
> The antitrust significance of the fraud, therefore, is simply that it showed Food Machinery to be litigating in bad faith. *Walker* is thus not a mere patent decision but an antitrust precedent of general applicability. It stands for the proposition that pressing claims known to be without foundation for the purpose of stifling competition is a violation of Section 2 of the Sherman Act.
>
> Certainly, in a proper case, a proved intent not to bar competitors from the courtroom but, by the litigation of baseless claims, to bar them from a market or to delay their entry should suffice for violation of the

> Sherman Act. The *Walker* decision holds as much, and there is no indication that *Trucking Unlimited* represents a retreat from *Walker*. On the contrary, the concurring Justices seemed to feel that the *Trucking Unlimited* majority was opening up broad new areas of liability. [Bork, Robert H., *The Antitrust Paradox* (1978), pp. 352-353, 354.]

Professors Areeda and Turner are in accord.

> In light of the serious potential damage inflicted by reckless infringement suits or threats thereof, particularly against the alleged infringer's customers, we think an attempt claim based on that conduct alone is warranted for its deterrent effect. [P. Areeda & D. Turner, *III Antitrust Law*, § 836, p. 355 (1978).]

See also Balmer, Sham Litigation and The antitrust Laws, 29 Buffalo L. Rev. 39 (1980), and Fischel, Antitrust Liability For Attempts To Influence Government Action: The Basis and Limits of the Noerr-Pennington Doctrine, 45 U.Chi. L. Rev. 80, 108 (1977).

IV

ETHICON'S ALTERNATIVE ARGUMENT THAT IT WAS DENIED AN INDEPENDENT EVALUATION OF THE EVIDENCE IS WITHOUT MERIT

A. Ethicon Did Not Request, and Has Waived, a De Novo Review Standard Applied to the Bad Faith Finding

As noted earlier, Ethicon in *Handgards II* urged on the Ninth Circuit a "substantial evidence" standard of review even with respect to bad faith fact-finding. And Ethicon adopted the same standard of review in *Handgards I*.

At no time in any of its post-trial motions in either *Handgards I* or *Handgards II* did Ethicon characterize the de-

termination of bad faith as a "constitutional fact" requiring *de novo* review. That suggestion emerges for the first time in its Petition to this Court. Although the request, for the reason set forth below, is without merit, it comes too late to be considered. *Michel v. Louisiana*, 350 U.S. 91, 99 (1955).[7]

B. Ethicon Itself Proposed the Substantial Evidence Test to That Court

Under the caption "Standard of Review", Ethicon's Opening Brief in the Ninth Circuit recited in part:

> Points I and II[8] present questions of law which this Court may review *de novo*. *Transport Indemnity Co.* v. *Liberty Mutual Insurance Co.*, 620 F.2d 1368 (9th Cir. 1980). *They also raise the question whether there is substantial evidence to support the jury's verdict. California Computer Products* v. *IBM*, 613 F.2d 727, 732-34 (9th Cir. 1979). [Appellant's Brief, p. 10; emphasis added.]

Having failed to urge a *de novo* standard of review for "constitutional facts" and having affirmatively urged a "substantial evidence" test, Ethicon is now precluded from urging error on the ground that the court below applied the wrong standard of review. This Court has repeatedly and

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[7]It is ironic that Ethicon, which rejected Handgards' offer to waive the jury on the retrial, now suggests that it was entitled to *de novo* review by the same judge to whom it refused to submit the case initially.

[8]Point I in the Brief was captioned, "There was no Clear and Convincing Evidence that Ethicon Prosecuted the Patent Suit in Bad Faith", and Point II was captioned "There was No Substantial Evidence That Ethicon Violated the Antitrust laws."

consistently held that it will not consider an issue which is raised for the first time in the Petition for Certiorari.[9]

C. In Any Event, The Courts Below Independently Reviewed the Evidence

Assuming, *arguendo*, that the lower courts had a duty to independently examine the evidence in order to satisfy the constitutional standard reiterated by this Court in *Bose* v. *Consumer's Union*, 104 S.Ct. 1949 (1984), it is plain that they discharged that responsibility.

Even if some independent review was required to "cross the constitutional threshold" (*id.* at 1965), the intensity of that review varies in the circumstances of the case. *Id.* at 1959. There is a "presumption of correctness that attaches to factual findings [which] is stronger in some cases than in others" (*id.*). Here, numerous factors support that "presumption of correctness" for the findings of the lower court:

1. Handgards had to overcome a presumption of good faith by clear and convincing evidence;

2. The critical evidence of the intentional falsehoods was largely documentary;

3. The litigation was extraordinarily lengthy and complex involving facts dating back 27 years. In this context, the courts below each expressed "independent" satisfaction that the result was consistent with the evidence as a whole.

District Judge Stanley A. Weigel in denying Ethicon's post-trial motions concluded: "The record in this case reasonably supports the jury's verdict. Consequently, defend-

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[9]*E.g., J. I. Case Co.* v. *Borak*, 377 U.S. 426, 428-429 (1964); *State of California* v. *Taylor*, 353 U.S. 553, 556-557 n.2 (1957); *Neely* v. *Martin K. Eby Construction Co.*, 386 U.S. 317, 330 (1967); *United States* v. *Ortiz*, 422 U.S. 891, 898 (1975); *Delta Air Lines, Inc.* v. *August*, 450 U.S. 346, 362 (1981); *Hoover* v. *Ronwin*, 104 S.Ct. 1989, 1998 n. 25 (1984).

ant is entitled to neither judgment notwithstanding the verdict nor a new trial." 552 F.Supp. at 821.

The Ninth Circuit also conducted an independent review of the factual record below, stating "we shall evaluate the evidence" on each of Handgards' theories of bad faith. After repeated references to the evidence in the record, the Court concluded:

> *Conclusion As To The Clear And Convincing Evidence of Bad Faith*
>
> Our examination of the record convinces us that the district court properly instructed the jury in accordance with our opinion in *Handgards I*. The jury was instructed that a patent is presumptively valid and that presumption can only be rebutted with clear and convincing evidence. *See* 601 F.2d at 996. *Substantial evidence exists to support a finding by the jury that Handgards established such a rebuttal and that Ethicon prosecuted its patent suit in bad faith.* [App. 17a; emphasis added.] . . .

And "Here, Ethicon brought a bad faith infringement suit." App. 23a. Just as in *Miree* v. *DeKalb County, Georgia*, 433 U.S. 25, 34 (1977), the *Bose* argument is an "afterthought".

V

THE DECISION BELOW CREATES NO NEW PER SE MONOPOLIZATION DOCTRINE AND IS IN HARMONY WITH THIS COURT'S MONOPOLY DECISIONS

The Ninth Circuit did not create any *per se* antitrust doctrine under Section 2 of the Sherman Act for the prosecution of a bad faith patent suit. It was careful to point out in *Handgards I* that "an antitrust plaintiff pursuing a bad faith patent prosecution theory must still prove the other requisites of a Section 2 offense." *Handgards, Inc.* v.

Ethicon, Inc., 601 F.2d at 993 n.13. *See also Walker Process Equipment, Inc.* v. *Food Machinery & Chemical Corp.*, *supra*. Far from creating a new *per se* category of monopolization claim under Section 2, the Ninth Circuit imposed a high barrier, holding that a patentee's infringement suit is presumptively in good faith and that this presumption can be overcome only by clear and convincing evidence.

Contrary to Ethicon's arguments, Handgards proved the existence of a separate and distinct relevant market constituting hair care gloves. Ethicon was shown to have possessed a 90% share of that market. The Ninth Circuit found that substantial evidence existed to support the jury's finding on this relevant market and market share (App. 19a-20a) as well as on dangerous probability of success. *Id.*

Moreover, the Ninth Circuit found evidence of specific intent to monopolize, characterizing the threatening Gerard letter as the "most damaging evidence" to support this element. App. 17a-18a. And it also found evidence sufficient to support a finding of anticompetitive effect causing "antitrust injury." App. 24a. Thus, the court reviewed the record and found the jury's finding *on each element* of an attempt to monopolize claim to be supported by substantial evidence. The court concluded:

> Our review of the record leads us to conclude that the district court properly adhered to our decision in *Handgards I*. Ethicon's arguments on appeal primarily are an attack on the verdict of the jury. * * * [T]he verdict is supported by substantial evidence. * * * Thus, we affirm the entirety of the antitrust verdict against Ethicon. *** [App. 32a].

It is gross hyperbole to assert that the Ninth Circuit adopted a "per se" rule of attempted monopolization under Section 2. The decision by two judges of the *Handgards II*

panel only three days later in *Omni Resource Development Corp.* v. *Conoco, Inc.*, 739 F.2d 1412 (9th Cir. 1984), affirmed summary judgment for the defendant in an antitrust case alleging bad faith use of litigation. That case cogently demonstrates that the Ninth Circuit has not adopted an expansive or new interpretation of Section 2 of the Sherman Act.[10]

And, the Ninth Circuit's holding that actual exclusion from the market is not necessary in an attempt to monopolize case is consistent with this Court's prior holdings. *Lorain Journal Company* v. *United States*, 342 U.S. 143 (1951).

Finally, Petitioner's argument that the instant case should be either combined for review with, or held for disposition in light of the Court's eventual decisions in, *Blanton* v. *Mobil Oil Corp.*, 721 F.2d 1207 (9th Cir. 1983), *petition for cert. filed*, 52 U.S.L.W. 3875 (U.S. May 18, 1984) (No. 83-1896), and *Pacific Stationery & Printing Co.* v. *Northwest Wholesale Stationery*, 715 F.2d 1393 (9th Cir. 1983), *cert. granted*, 53 U.S.L.W. 3235 (U.S. Oct. 1, 1984) (No. 83-1368), Pet. at 26-27, is utterly without merit. In the instant case, in contrast to Blanton, the Ninth Circuit found an attempt to monopolize based on the showing of a specific intent to monopolize and a dangerous probability of success

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[10]The Orsini patent, which Ethicon voluntarily *withdrew* from the original patent infringement suit because its lawyers recognized it to be the weaker of the two patents, is legally irrelevant because Ethicon gave Handgards a covenant not to sue when it made the decision to withdraw it. Hence, Ethicon was powerless to enforce Orsini. Moreover, as the Ninth Circuit noted:

> • • • Ethicon argues that the injury caused by the Orsini patent is not antitrust injury. We agree. However, this does not help Ethicon. There is no showing that Handgards' lost profits are attributable to the Orsini patent. Ethicon did not attempt to prove that the Orsini patent caused any of the damages. [App. 23a.]

in the relevant market, the elements this Court requires to be proven before finding an attempt to monopolize. *See, e.g., Lorain Journal* v. *United States, supra; American Tobacco Co. v. United States*, 328 U.S. 781 (1946); *Swift & Co.* v. *United States*, 196 U.S. 375 (1905). And *Pacific Stationery & Printing Co.* involved an application of the *per se* rule to an alleged group boycott by a trade association and did not involve an attempt to monopolize claim as in the instant case.

VI

ETHICON ITSELF URGED JURISDICTION UPON THE NINTH CIRCUIT, AND IN ANY EVENT JURISDICTION PROPERLY LAY WITH THAT COURT

Ethicon now questions the Ninth Circuit's jurisdiction, but buries in a footnote the fact that "both parties suggested that that court had jurisdiction." Pet. at 28 n. 13. In point of fact, Ethicon did not merely make a suggestion; it affirmatively urged at every stage that jurisdiction properly lay with the Ninth Circuit:

(a) In its opening brief, Ethicon told the Ninth Circuit that it, and not the Court of Appeals for the Federal Circuit (CAFC), had jurisdiction to decide this appeal. (See App. 5a).

(b) Ethicon specifically and successfully sought — over the objection of Handgards — to have the second appeal heard by the original panel of judges who decided *Handgards I.*

(c) During the course of oral argument, Judge Sneed raised the issue of jurisdiction and specifically asked the parties to file supplemental briefs on that issue. Ethicon in its supplemental brief continued to assert that the Ninth Circuit was the correct court to decide this appeal.

It was only after it lost on appeal that Ethicon suddenly, and for the first time, claimed a lack of jurisdiction. Ethicon should not be allowed to raise this point for the first time before this Court. Having fought and lost, Ethicon now wants a second bite of the apple. But, there must be some end to this litigation. This case is now 16 years old. These parties have already been through three trials, one patent infringement trial, two antitrust trials, and five appellate procedures to reach this state. The decision of the Ninth Circuit Court of Appeals should therefore be entitled to great deference under the doctrine that "courts generally *** refuse to reopen what already has been decided. ***" *Messenger* v. *Anderson*, 225 U.S. 436, 444 (1912).

The consistent position of the parties asserting that the Ninth Circuit, and not the CAFC, has jurisdiction of the appeal derives from the universal recognition that absolutely no issue of patent validity or invalidity was raised or decided in the second trial and second appeal. Because the proceedings of the District Court from which the appeal was taken did not arise under 28 U.S.C. § 1338(a), the CAFC had no jurisdiction over the appeal. The stipulated pretrial orders in this case governing both the first and second trial uniformly recited that the federal court's jurisdiction was premised entirely on Section 4 of the Clayton Act and one or more sections of the Sherman Act.

It is self-evident that the antitrust laws and not the patent laws constitute the predicate of this action and that the CAFC's jurisdiction extends only to those cases "arising under" the patent laws. The mere fact that the underlying litigation was a baseless patent infringement suit forming part of an attempt to monopolize does not turn the case into one "arising under the patent laws." Both the Senate and House reports establishing the CAFC preclude it from deciding cases if the "gravamen is antitrust." *E.g.*, S. Rep.

No. 275, 97th Cong., 1st Sess. 19, 20 (1981), reprinted in U.S. Code Cong. & Ad. News No. 2 (Apr. 1982). And the fact that questions of patent law arise in the course of a controversy does not convert the case "to one arising under" the patent laws: *New Marshall Engine Co.* v. *Marshall Engine Co.*, 223 U.S. 473 (1912); *American Well Works Co.* v. *Layne & Bowler Co.*, 241 U.S. 257 (1916); *Koratron Co.* v. *Deering Milliken, Inc.*, 418 F.2d 1314, 1316-18 (9th Cir. 1969), *cert. denied*, 398 U.S. 909 (1970).

The Court of Appeals for the Federal Circuit recognizes this rule. In *Atari, Inc.* v. *JS&A Group, Inc.*, *supra*, that court held:

> Achievement of increased uniformity in the substantive law of patents does not require that this court get its hands on every appeal involving an allegation that a patent law issue is somehow involved * * * [A] mere allegation that patent law is involved will not give this court jurisdiction when that of the district court did not rest at least in part on a continuing claim arising under the patent *** laws.

CONCLUSION

For the reasons set forth herein, the Petition for Certiorari should be denied.

Dated: December 28, 1984

Respectfully submitted,

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No. 84-830

IN THE

Supreme Court of the United States

OCTOBER TERM, 1984

ETHICON, INC.,

Petitioner,

—v.—

HANDGARDS, INC.,

Respondent.

REPLY BRIEF IN SUPPORT OF PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE NINTH CIRCUIT

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TABLE OF CONTENTS

	PAGE
Table of Authorities	iii
Argument	1
I. Handgards' Brief Emphasizes The Need for This Court's Review of The *Noerr-Pennington* Issue	1
II. The Appropriate Standard for Reviewing Sufficiency of The Evidence Is Part and Parcel of The First Amendment Problem Presented By The Sham Litigation Exception	5
III. The Verdict In This Case Demonstrates the Threat to Petitioning Activity Created By The Ninth Circuit's "Bad Faith" Test	6
IV. The Jurisdictional Conflict Created By the Ninth Circuit's Ruling Here and the CAFC's Decisions Should be Resolved By This Court	8
Conclusion	10

TABLE OF AUTHORITIES

Cases	PAGE
Alexander v. National Farmers Organization, 687 F.2d 1173 (8th Cir. 1982), *cert. denied*, 461 U.S. 937 (1983)	2
Al Bolser's Tire Stores, Inc. v. Bandag, Inc., 223 U.S.P.Q. 982 (Fed. Cir., Nov. 8, 1984)	8
Associated Radio Service Co. v. Page Airways, Inc., 624 F.2d 1342 (5th Cir. 1980), *cert. denied*, 450 U.S. 1030 (1981)	2
Atari, Inc. v. JS&A Group, Inc., 223 U.S.P.Q. 1074 (Fed. Cir., Nov. 8, 1984)	8
The Barbed Wire Patent, 143 U.S. 275 (1892)	7
Bill Johnson's Restaurants, Inc. v. N.L.R.B., 461 U.S. 731, 103 S. Ct. 2161 (1983)	1, 5
Bose Corp. v. Consumers Union, Inc., ____ U.S. ____, 104 S. Ct. 1949 (1984)	5
California Motor Transport Co. v. Trucking Unlimited, 404 U.S. 508 (1972)	4
Cleveland v. Cleveland Electric Illuminating Co., 734 F.2d 1157 (6th Cir.), *cert. denied*, ____ U.S. ____, 105 S.Ct. 253 (1984)	2
E.I. du Pont de Nemours & Co. v. Berkley & Co., 620 F.2d 1247 (8th Cir. 1980)	3, 4, 7
Gregory v. Chicago, 394 U.S. 111 (1969)	3
Hospital Bldg. Co. v. Trustees of Rex Hospital, 691 F.2d 678, (4th Cir. 1982), *cert. denied*, ____ U.S. ____, 104 S.Ct. 231 (1983)	2
Hydro-Tech Corp. v. Sundstrand Corp., 673 F.2d 1171 (10th Cir. 1982)	2

PAGE

Ollman v. Evans, No. 79-2265 (D.C. Cir., Dec. 6, 1984) 6

Stromberg v. California, 283 U.S. 359 (1931) 3

Vendo Co. v. Lektro-Vend Corp., 433 U.S. 623 (1977) 2

Walker Process Equipment, Inc. v. Food Machinery & Chemical Corp., 382 U.S. 172 (1965) 4

Statutes, Rules and Regulations

28 U.S.C. § 1295 8

Other Authorities

D. Chisum, *Patents* (1978) 4

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REPLY BRIEF IN SUPPORT OF ETHICON'S PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE NINTH CIRCUIT

I. Handgards' Brief Emphasizes the Need for This Court's Review of the *Noerr-Pennington* Issue

Handgards purports to embrace this Court's decision in *Bill Johnson's Restaurants* but offers nothing to support its naked and incorrect assertion that *Bill Johnson's Restaurants* has "clearly delineated" the sham litigation exception (Brief In Opp. at 12). *Bill Johnson's Restaurants* held that any lawsuit that turns "on the credibility of witnesses or on the proper inferences to be drawn from undisputed facts" cannot be deprived of First Amendment protection. 103 S. Ct. 2161, 2171 (1983). That decision, a labor case, did not address and has not settled the conflict and confusion in the antitrust area involving the scope of the sham litigation exception. Handgards does

not and cannot deny that the decisions in the lower courts have repeatedly voiced judicial uncertainty as to the scope of the protection to be given to a single lawsuit purportedly brought in bad faith (Pet. at 15-20).[1]

Handgards denies a significant conflict among the Circuits on this issue, but in so doing it ignores or misconstrues the vast majority of decisions cited in the petition. These decisions have consistently required either a multiplicity of actions designed to bar a competitor's access to adjudicatory bodies, or baseless litigation accompanied by an overall scheme of predatory, fraudulent, or corrupt acts *extrinsic* to the conduct in the litigation itself (*See* Pet. at 8-9; 16-20). At least in the Fourth,[2] Fifth,[3] Sixth,[4] Eighth,[5] and Tenth[6] Circuits, Ethicon's conduct here would not have been actionable.

Handgards' own confusion appears in its vacillation over whether the bad faith test fashioned by the Ninth Circuit for

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1 Moreover, contrary to Handgards' "close reading" of this Court's decision in *Vendo Co. v. Lektro-Vend Corp.*, 433 U.S. 623 (1977), a majority of the Court in that decision viewed the sham exception as requiring a multiplicity of suits. *See id.* at 635 n. 6 (plurality opinion of Rehnquist, J.); *id.* at 644 n. (opinion of Blackmun, J.).

2 *Hospital Building Co.* v. *Trustees of Rex Hospital*, 691 F.2d 678, 687-88 (4th Cir. 1982) (sham exception requires baseless, repetitive actions taken to prevent competitor's access to tribunal; jury instruction labelling "abuse of process" as sham is overbroad).

3 *Associated Radio Service* v. *Page Airways, Inc.* 624 F.2d 1342, 1358 (5th Cir. 1980) ("specific acts, other than those incidental to normal use of the courts," required).

4. *Cleveland* v. *Cleveland Electric Illuminating Co.*, 734 F.2d 1157, 1162 (6th Cir. 1984) (requiring repetitive claims that succeed in barring access to courts or agencies).

5 *See Alexander* v. *National Farmers Organization*, 687 F.2d 1173, 1200 (8th Cir. 1982) ("broad pattern" of actual and threatened litigation against customers of target organization held to be a sham).

6 *Hydro-Tech Corp.* v. *Sundstrand Corp.*, 673 F.2d 1171, 1176-77 (10th Cir. 1982) (filing suit merely without probable cause, "such determination to be made, of course, on a hindsight basis," not within sham exception).

patent enforcement actions, and endorsed by Handgards itself in that Court, is proper. Handgards now appears to recognize that in addition to baselessness, conduct external to the single lawsuit must also be shown (Brief In Opp. at 15).[7] Significantly, Handgards makes no attempt to defend the Ninth Circuit's belated effort to give the appearance of satisfying the external act requirement through labeling a litigant's bad faith as "extrinsic" to the lawsuit itself (App. B. 35a).

Instead, Handgards now seizes upon a letter written by Gerard in response to a query by Ethicon's distributor, Porter. The letter enclosed a copy of the Gerard patent and correctly informed the distributor that it was being prosecuted. Handgards does not and cannot claim that this straightforward and simple letter was in any way inaccurate.

The constitutional protection afforded the right to petition would be illusory indeed if one could lose it by merely referring in a letter to its exercise. For the extrinsic act requirement to be meaningful, it must refer to conduct that is independently predatory and unlawful, and therefore shed light on the overall anticompetitive scheme of the perpetrator. But merely informing one's own distributor as to the existence of the patent and a lawsuit thereon is not at all probative of any scheme to monopolize. *E.I. du Pont de Nemours & Co.* v. *Berkley & Co.*, 620 F.2d 1247, 1272-73 (8th Cir. 1980). This episode thus adds nothing to the basic charge of litigating in bad faith, as even the Ninth Circuit recognized. In *Handgards I*, with full knowledge of the Porter letter, the court squarely found that "no evidence of any overall scheme to monopolize exists *apart* from allegations that directly relate to the bad faith prosecution charges." (App. C at 51a) (emphasis in original).

Handgards also relies on Ethicon's offers to license Handgards as proof of external, unlawful conduct. These

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7 Because the jury was not instructed at all on and could not have found the necessary elements of the *Noerr-Pennington* doctrine, including the extrinsic-act requirement, Handgards' after-the-fact exposition of evidence supposedly satisfying that aspect of the rule would in any event not suffice to uphold the verdict below. *Gregory* v. *Chicago*, 394 U.S. 111 (1969); *Stromberg* v. *California*, 283 U.S. 359 (1931).

license offers, including the ones made on the Orsini patent, were consistently rejected by Handgards because it preferred to set up a *Walker Process* treble damage case based on the Orsini patent (DX 1032, DX 1033), a claim that Handgards abandoned as meritless in 1975. The Orsini product patent was ultimately found to be valid and infringed by Handgards and covers the very market found to have been illegally monopolized.[8]

Thus, each of Handgards' attempts to find external misconduct is not only fruitless, but also illustrates Handgards' discomfort with the legal standard on which this judgment was based.

Finally, Handgards invokes *Walker Process Equipment, Inc.* v. *Food Machinery & Chemical Corp.*, 382 U.S. 172 (1965) in support of the bad faith rule fashioned below. In doing so, it completely ignores the limitation of that decision, made crystal clear in Justice Harlan's concurrence, to lawsuits based on fraudulently-obtained patents. (*See* Pet. at 12). *California Motor Transport Co. v. Trucking Unlimited*, 404 U.S. 508, 512-13 (1972) properly recognized *Walker Process* fraud as the type of collateral, corrupt activity that may render litigation unprotected by the right to petition. But so-called "bad faith" adversary litigation is a very different matter. Patent applications are secret, *ex parte* affairs. The applicant is therefore under an affirmative duty of full and forthright disclosure of all facts material to patentability. *See, e.g.*, D. Chisum, *Patents* §§ 11.03[4], 19.03 (1978). If the patent is procured by the applicant's intentional fraud, not only can it not possibly be valid but the "patentee" has no right to appear in court at all under color of the "patent." *See E.I. duPont de Nemours & Co.* v. *Berkley & Co., supra*, 620 F.2d at 1274. By contrast, a properly issued patent, such as Gerard's, is itself a grant of a right to sue. Indeed it is nothing more than that, for a patent may only be tested and enforced in court. Such adversary proceedings are necessary to the proper functioning of the

8 Although in 1968 Ethicon had given Handgards a covenant not to sue on Orsini (Brief In Opp. at 23 n.10), that covenant was *vacated* in the 1976 antitrust trial, resulting in the judgment of validity and infringement.

patent system and, in such enforcement actions, it is customary and expected for each side to present the conflicting evidence in the light most favorable to it. In most of the other Circuits, a subsequent antitrust jury would not have been allowed to infer "bad faith," and resultant antitrust liability, from that evidence.

II. The Appropriate Standard For Reviewing Sufficiency Of The Evidence Is Part And Parcel Of The First Amendment Problem Presented By The Sham Litigation Exception

Handgards characterizes the need for the trial and appellate courts to make an independent evaluation of the evidence relied upon to overcome the First Amendment right of petition as an "alternative argument." (Brief In Opp. at 18). It is not. A substantive constitutional standard can easily be vitiated without proper procedural safeguards.

This case keenly demonstrates this danger. The abdication by both the trial and appeals court of their duty to make this independent determination gives a jury unfettered discretion to determine whether a party's conduct is unprotected by the First Amendment. It effectually overrides the mandate of *Bill Johnson's Restaurants* that exercise of the right to petition cannot be penalized where the outcome of the suit depended "on the credibility of witnesses or on the proper inferences to be drawn from undisputed facts." 103 S. Ct. at 2171. That was precisely the case here and that is why the case should never have gone to the jury.

Ever since the Ninth Circuit in *Handgards I* fashioned this free-floating bad faith standard, Ethicon has consistently urged that the trial and appeals courts were required to make an independent, threshold determination whether the evidence was sufficient to deprive Ethicon of its constitutional right of petition.[9] Specifically, Ethicon urged on its motion for sum-

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9 This Court's decision in *Bose Corp. v. Consumers Union*, ____ U.S. ____, 104 S.Ct. 1949 (1984) was not decided until months after this case had been fully briefed and argued in the Ninth Circuit. Thus, it was not discussed below.

mary judgment in 1980 (Ethicon Br. pp. 78-84), on its motion for judgment n.o.v. in 1982 (Ethicon Br. pp. 10-11, 15-19, 29-37) and on its appeal briefs to the Ninth Circuit in 1983 (Appellant's Br. pp. 10-11, 24-26; Reply Br. pp. 1-3) that a threshold judicial determination of the evidence should be made and that such a determination precluded submission of the case to the jury. The Ninth Circuit clearly understood that Ethicon was urging such a standard as part of the *Noerr-Pennington* immunity argument. It explicitly rejected the duty to make such a "threshold legal determination" and the duty to make any independent review of the record (App. C, 9a-10a, 32a). Those unequivocal excerpts from the Ninth Circuit's opinion are quoted at page 23 of our petition. Handgards' refusal to discuss them exposes the frivolity of its claim of waiver.

III. The Verdict In This Case Demonstrates the Threat to Petitioning Activity Created By The Ninth Circuit's "Bad Faith" Test

Handgards carefully avoids the thrust of Ethicon's petition. It incorrectly characterizes it as solely "an Attack on the Jury Verdict" and then repeatedly recites the instruction that the jury had to find by "clear and convincing evidence" that Ethicon "knew" that its patent was invalid. But that is the crux of what is wrong with the Ninth Circuit's unique "sham" doctrine. This is a case that, under a proper application of the sham exception, should never have gone to the jury. As Judge Robert Bork recognized in another recent First Amendment case, if the defendant's conduct is constitutionally protected as a matter of law, submitting the case to the jury on a "clear and convincing" standard of proof "is next to no protection." *Ollman* v. *Evans*, No. 79-2265, slip op. at 32 n.9 (D.C. Cir., Dec. 6, 1984) *(en banc)* (Bork, J., concurring).

Ethicon did not "know" of undisputed facts that rendered the patent invalid, and the jury was never required to so find. All Ethicon knew was that the facts relating to validity were hotly disputed and hinged on testimony of adverse witnesses.

Thus, Handgards concedes that the one issue litigated in the patent suit—that of prior public use—was a "decision based on credibility of witnesses" (Brief in Opp. at 2 n.2). Ethicon resolved to try this credibility issue in court, as was undoubtedly its right. *See The Barbed Wire Patent*, 143 U.S. 275, 284-85 (1892); *E.I. duPont de Nemours & Co. v. Berkley & Co., supra*, 620 F.2d at 1269.

Handgards is reduced to arguing that Ethicon lost its First Amendment immunity in not "recognizing *the truth*—that the Gerard patent was invalid" on other grounds which were not even litigated in the patent trial (Brief In Opp. at 5). Handgards concedes by its silence, however, that these two unlitigated defenses, priority of invention and the on-sale bar, turn on the application of patent law principles to facts known to its own attorneys during the patent case.

The "fabricated" interrogatory answers (which dealt exclusively with these unlitigated issues and which, Handgards conceded, did not mislead it) were legal contentions on ultimate issues based on a pre-trial view of the facts in the light most favorable to Ethicon. Handgards' evidence of "falsification" is nothing more than a restatement of the issue in the light most favorable to it.[10]

None of the foregoing comes close to being a "sham". No litigant should be required to prove to the satisfaction of a

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10 The undisputed facts on the issue of the date of reduction to practice were that Gerard made a glove using a special printer's paper *backing* in September, 1956, and used ordinary paper as a *carrier* the following May. Ethicon construed the patent as requiring a paper backing, not a paper carrier for the plastic gloves. Thus, Ethicon's counsel contended that the September event satisfied the legal reduction to practice requirement, and Handgards contended in this antitrust suit that only the May event did so. Had the issue been tried, Ethicon's contention may have been declared "right" or "wrong", but a jury had no business adjudicating it as "true" or "false".

With respect to the other unlitigated affirmative defense, that of the on-sale bar, Handgards does not dispute that this defense would have turned on the application of patent law to *undisputed* facts known to it at the time of the patent trial. Neither Handgards nor the Ninth Circuit has ever cited any authority foreclosing the position Ethicon took on this issue.

subsequent antitrust jury that contentions made in the earlier case were incontestably correct, as Handgards seems to contemplate (Brief in Opp. at 5).

Handgards remonstrates for judicial finality (Brief In Opp. at 25). Yet the Ninth Circuit's determination that the merits of any lawsuit between competitors can be relitigated with an object of assessing treble damages for conduct completely within the bounds of the lawsuit is certain to defeat the interest of finality. Here there was a single suit, unsullied by subornation of perjury or any other abuse of process. It was brought on a non-fraudulently procured patent and unaccompanied by any anticompetitive conduct external to the lawsuit. It presents in the purest form the question whether such a suit may rise to the level of a "sham" under the *Noerr* doctrine and thus, without more, constitute grounds for treble damage antitrust liability.

IV. The Jurisdictional Conflict Created By The Ninth Circuit's Ruling Here And The CAFC's Decisions Should Be Resolved By This Court

Handgards seems to suggest, without explicitly arguing, that Ethicon misled the Ninth Circuit on the jurisdictional issue (Brief In Opp. at 24-25). Ethicon, however, raised the jurisdictional issue in the pre-appeal filing in the Ninth Circuit and in its briefs precisely because the question of subject matter jurisdiction was open to serious question and was one which could not be waived. At the time of the argument and decision by the Ninth Circuit in this case there were no CAFC cases dealing with the critical jurisdictional point: whether the CAFC has exclusive jurisdiction over an appeal involving a non-patent issue in a case "arising in part" under the patent laws. 28 U.S.C. § 1295(a)(1). The Ninth Circuit in this case held that the CAFC does not have jurisdiction over such an appeal. The CAFC now in *Atari, Inc. v. JS&A Group, Inc.*, 223 U.S.P.Q. 1074 (Fed. Cir., Nov. 8, 1984) suggests that it does.[11] The CAFC, in an *en banc* opinion, stated (223 U.S.P.Q. at 1079):

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11 *Al Bolser's Tire Stores, Inc. v. Bandag, Inc.*, 223 U.S.P.Q. 982 (Fed. Cir., Nov. 8, 1984) holds to the same effect as *Atari*.

> This court's jurisdiction, under the statute and as recognized in the legislative history, *infra* note 7, is *defined* by the basis of the district court jurisdiction. Because the district court's jurisdiction of Atari's entire case was and still is based in part on its patent claim under § 1338(a), and because § 1295(a)(1) vests this court with exclusive appellate jurisdiction in such cases, we cannot, as Atari would have us do, disregard the literal language of our jurisdictional statute. [emphasis in original]

It concluded (223 U.S.P.Q. at 1082):

> . . . appellate jurisdiction [exists] over all final, i.e., appealable, decisions of district courts in cases like the present, where the district court's jurisdiction was and is based in part on a continuing non-frivolous patent claim under § 1338, whether the appealed decision relates to an existing patent claim or to a non-patent claim.

Handgards argues that the case "did not arise" in part under the patent laws because the pre-trial orders entered in 1975 reflect only claims under § 4 of the Clayton Act. It cannot dispute the fact, pointed out not only in our petition (p. 27), but also in the Ninth Circuit's Opinion (App. A, at 7a n.7) that the complaint herein was amended in 1976 prior to the first trial to seek a declaration of invalidity of the Orsini patent, and that a judgment of validity and infringement of Orsini by Handgards was duly entered on that claim.

Thus, if the CAFC is correct in its construction of its own jurisdictional grant, the Ninth Circuit lacked jurisdiction of the subject matter here. *Atari* and *Handgards* are in direct conflict and only this Court can resolve this continuing jurisdictional problem.

CONCLUSION

For the reasons stated, a writ of certiorari to the Ninth Circuit should issue.

Respectfully submitted,

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